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Austria	12 S.	Kenya	Sh. 6.50
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Italy	350 Lire	U.S. Military Eur.	$0.35
Israel	I£ 4.50	Yugoslavia	12 D.

...se in U.K. ...orrowing ...Hinted ...y Healey

...NDON, Nov. 7 (Reuters).—...ritish government may have ...row more heavily than fore... next year to pay for its ...e spending, Chancellor of the ...equer Denis Healey indicat... yesterday.

Mr. Healey, in a radio in...w, was responding to a paper report that the coun... borrowing requirement for 1978 would be £11 billion ...is £10 billion)—£2 billion ... than he forecast in July. ...I think it is likely to be more, ...I think that the £2 billion ...e is entirely speculative," he ...

...Healey also said that the ...r government might be force... take more painful economic ...ures to hold down borrow...

...ere have already been signals ...the government that it is ...aring austerity measures, ...sibly including cuts in state ...nditure and higher indirect ...to satisfy the conditions ...he International Monetary ...l for a projected $3.9-billion ...

...team of IMF inspectors is ...discussing terms for the loan. ...is expected to seek a cut ...e budget deficit and restraint ...he growth of Britain's money ...ly. This has helped restore ...idence in the pound, back ...lo nearly $1.63 from around ... last month.

...r. Healey explained that the ...nd's decline was adding to ...and depressing demand for ...ls. The economy is moving ...ad more slowly than planned, ...ing the government with ...er revenues and higher costs ...n forecast, he said.

...e had predicted in July, when ...announced cuts in public ...nding, that borrowing to pay the difference between state income and expenditure would drop from about £11 billion at present to £9 billion.

A newspaper said yesterday the latest forecasts showed that borrowing would still be around £11 billion.

"Remember there are still five months to go before the next financial year even begins," Mr. Healey said. "There is a great deal of time, if the government feels the public sector borrowing requirement ought to be lower than it is likely to be, to take steps to reduce it."

Mr. Healey declined to elaborate on what these steps might be. Asked about the possibility of an interim budget before Christmas, he said that he would have to decide this in the light of the latest information and discussions with the IMF.

"There is a real possibility we will have to take further action, which would be painful and difficult," he said.

EUROMARKET SPECIAL REPORT

Special Section

An 18-page special section on Euromarkets appears today. It starts on Page 9.

Today's Insights/Sidelights page is devoted to U.S. politics. It appears on Page 26.

Resolution On Press Is Shelved By Unesco

NAIROBI, Nov. 7 (AP).—A United Nations commission voted overwhelmingly yesterday to shelve a Soviet-sponsored draft declaration that Western nations contended would muzzle press freedom around the world.

By a vote of 78 to 15, with six abstentions, a key commission at the UN Educational, Scientific and Cultural Organization conference moved to refer the proposal to a special negotiating committee. This is expected to defuse the issue for two more years.

George Beebe, chairman of the World Press Freedom Committee, which has been vigorously opposing the declaration, welcomed the decision.

"We hope that future decisions of the conference [concerning news media] will avoid any implications of state control," he said. "Such restrictions would be contrary to the charter of Unesco and the universal declaration of human rights."

Mr. Beebe added that the committee—representing 17 national and international news organizations—still believes "this is only the first of many challenges by those nations who wish to use Unesco for their own political ends." Mr. Beebe is associate publisher of the Miami Herald.

A large number of Third World nations sided with the United States and other Western countries on the vote shelving the proposal.

During 13 hours of debate, many developing nations made it clear that they favored the concept of a declaration on the mass media. They expressed concern over what they consider to be a largely one-way flow of information from the developed to the developing nations.

The Third World countries favor establishing their own news pool to counterbalance existing international news organizations. This proposal has been endorsed by the Western countries.

The developing nations that sided with the West in yesterday's vote apparently did so because of a strong desire, especially among African states, to avoid a direct confrontation during the Unesco conference, which is being held for the first time on African soil.

The declaration's opponents objected most strenuously to a section that said: "States are responsible for activities in the international sphere of all mass media under their jurisdiction."

This was seen by the opponents as a call for state control over the news media and the international flow a news. Many said the proposal was incompatible with guarantees of press freedom written into their national constitutions.

The Soviet Union contended that the West was misinterpreting the declaration and that it simply meant governments should be held responsible for news services and broadcast stations that they own.

The vote sent the media issue to a 25-member "special drafting and negotiating committee." Western representatives said the declaration probably would not be placed before Unesco again until its next general conference in 1978.

United Press International.
DEAD END—Pilot Henry Syzmanowski and passenger Bob Orlando survived crash of a plane into St. Casimir's Lithuanian Cemetery near Chicago's Midway Airport.

Says He Commands Peace Force

Sarkis Appeals for End to Bloodshed

BEIRUT, Nov. 7 (NYT).—President Elias Sarkis called today for an end to "bloodshed and ruin" and appealed to the heavily armed warring factions in Lebanon to greet with "fraternity and love" the Syrian-dominated peace-keeping force that is being established in the country.

In his first major public declaration since he was inaugurated Sept. 23 in a Syrian-occupied town in Lebanon, Mr. Sarkis emphasized in his speech to a national television and radio audience that the peace-keepers—an estimated 30,000 troops, more than two-thirds of them Syrian—would be directly under his command.

He said that he hoped their stay as a deterrent force in Lebanon would be brief, and that he had the right to ask them to leave the country. But, while the President's remark seemed calculated to reassure Lebanese who resent the Syrian presence here, Mr. Sarkis gave no indication of how long their mission might last.

Mr. Sarkis did not say exactly when the troops would take up positions in Beirut and other areas of the country. But the force, which is to include a total of at least 20,000 Syrians plus 6,000 to 7,000 troops from Saudi Arabia, Sudan, Yemen, Southern Yemen, Libya and the United Arab Emirates, is expected to start functioning in the next few days.

Mr. Sarkis reminded the leftist Moslems and Palestinians, on one side, and Christian rightists on the other that the powerful Arab nations that approved the establishment of the force had also promised to help rebuild Lebanon once peace and order returned to national life.

But he avoided reminding the factions that under the Arab leaders' agreements, reached last month in Saudi Arabia and Egypt the combatants are to be deprived of heavy weapons and required to return to positions they held before the war began in April of last year.

Mr. Sarkis dealt gingerly with one of the most volatile issues in the Lebanese crisis: the future of the Palestinian guerrillas in the country. The President said that the peace-keeping troops, whom he called "the brotherly Arab force among us," would "preserve Lebanon's sovereignty without preventing the Palestine Liberation Organization from working for its legitimate national objectives."

While the new peace plan approved by the Arab leaders calls for a Palestinian presence in Lebanon, under a neglected six-year-old agreement, Palestinian leaders have made it clear in recent days that they do not intend to surrender substantial quantities of the heavy weapons they acquired during the civil war.

Palestinian refusal to be disarmed could thus become a major obstacle to the re-establishment of peace in the country. Mr. Sarkis did not elaborate on how the Palestinians and the other armed factions would be disarmed.

Nor did the President go into specifics on other tasks of the deterrent force: separating and dispersing the combatants in Beirut and reopening the nation's major highways.

Today's speech marked the second major initiative that the President, who is a Maronite Christian, has taken in recent days. The first was the appointment of a Moslem Lebanese officer as commander of the peace force. The naming of the officer, Col. Ahmed al-Hajj, who had remained neutral during the civil war, stirred criticism from the leftist Moslems and Palestinians, but he is expected to keep the post, reporting directly to Mr. Sarkis.

As the President spoke, the capital endured the 18th day of the cease-fire, which for the last four nights has been punctuated by exchanges of artillery and mortar rounds that begin after dinner time and end at about 2 a.m.

Near Lebanon Frontier

Israelis Kill Arab, Capture 11 In Foiling Suspected Sea Raid

TEL AVIV, Nov. 7 (Reuters).—Eleven suspected Arab guerrillas were questioned today after an Israeli gunboat foiled what may have been planned as an attack on Israel from the sea.

One Arab was shot dead in the predawn encounter yesterday in international waters near the Israel-Lebanon frontier. Israeli naval vessels have been on 24-hour patrol in the waters since the civil was erupted in Lebanon last year.

Israeli officials said they believe that the 12 Arabs, stopped in three eight-meter fishing boats, were planning to raid Israel.

Last year, a group of guerrillas landed by night on a Tel Aviv beach and took hostages at a seafront hotel before being flushed out in fighting that killed 18 Arabs, Israelis and foreign tourists.

Daylight Capture

In September, another group landed in daylight on a Tel Aviv beach. At first they said they were seeking refuge in Israel, but the army reported that under interrogation they admitted their speedboat was launched from a freighter at sea on a guerrilla mission, and they threw their arms overboard when spotted near the Israeli coast.

A Defense Ministry spokesman said that in the latest incident, 15 miles off the Lebanese coast, the naval patrol vessel ordered the three boats to stop. The order was ignored and the patrol vessel opened fire, sinking one boat. A guerrilla killed in the craft was brought back here with his 11 companions.

Newsmen at Haifa, allowed to inspect the two captured vessels, said they were powered by diesel engines and carried extra fuel tanks, and one contained a collection of arms and ammunition, including Kalatchnikov rifles, grenades and packages of explosives.

In a recent incident, the Israeli Navy sank another boat and captured several crewmen, two of whom were in frogmen's suits with diving equipment.

High-Seas Checks

In the last few months, the Israelis have stopped several vessels of different flags on the high seas, in some cases escorting them to port for examination.

Meanwhile, military sources here denied reports that Israeli boats had attacked the southern Lebanese port of Sidon and the nearby Zaharani oil refinery.

A Lebanese Army spokesman in Beirut said several Israeli boats attacked Sidon but were driven off and that others approached the refinery.

Black Presidents See War as Only Way in Rhodesia

By John F. Burns

DAR ES SALAAM, Nov. 7 (NYT).—The Presidents of the black states neighboring Rhodesia emerged from a two-hour meeting here yesterday with a strongly worded statement backing guerrilla war as the only means by which the territory's African nationalists can achieve independence under majority rule.

The black leaders, reacting angrily to recent Rhodesian raids on guerrilla camps in Mozambique, also called on the Communist bloc and other friendly nations to increase arms shipments and diplomatic support to the insurgents. The statement made no direct mention of the conference on Rhodesia in Geneva, where the territory's white minority government and black nationalist leaders are meeting in an attempt to negotiate a peaceful transition to majority rule within two years.

However, the document appeared to signal the Presidents' lack of support for the negotiations by describing efforts to find a peaceful solution as an imperialist plot to buy time for the government of Prime Minister Ian Smith.

The meeting, the first gathering of the five so-called "frontline" states since the Geneva discussions began two weeks ago, was attended by Presidents Julius Nyerere of Tanzania, Kenneth Kaunda of Zambia, Agostino Neto of Angola and Samora Machel of Mozambique. Botswana sent Vice-President Quett Kasumile Masire in place of its President, Sir Seretse Khama, who is ill.

The gathering, which was unusually brief, cane as the Geneva negotiations appeared to be deadlocked over the issue of a date for the territory's independence under black rule. The issue was chosen by Britain, which is chairing the meeting, as the one that held out the best hope for compromise.

A U.S. diplomatic initiative, apparently aimed at breaking the impasse in Geneva, proceeded concurrently with the black Presidents' meeting here yesterday. John Reinhardt, assistant secretary of state for public affairs, met with President Nyerere before flying on to Geneva.

Mr. Reinhardt disclosed little about the meeting, other than to say that what Mr. Nyerere had told him was very similar to what the Presidents had said in their statement. He said that he and Mr. Nyerere had also spent time trying "to update each other" on developments related to the Rhodesian dispute.

Last Rhodesian Out

MAPUTO, Mozambique, Nov. 7 (UPI).—The last Rhodesian forces who took part in last week's operation against nationalist guerrilla camps in Mozambique have been expelled from the Tete province, the Mozambique Information Agency said today.

Mozambican forces "are now in complete control of the situation," the agency said.

During the fighting in Tete Province, eight Mozambican soldiers, two of them women, were killed, it said. As the Rhodesians retreated they "slaughtered the residents as they went, sowing destruction and stealing property," the agency added. It did not mention the number of casualties.

11 Deaths Reported

SALISBURY, Rhodesia, Nov. 7 (Reuters).—A white Rhodesian soldier, eight black nationalist guerrillas and two black civilians have died in the guerrilla war in the last 48 hours, an official communiqué said today.

His death brought security force losses so far this year to 94 and to 169 since the war started four years ago. The guerrilla deaths brought insurgent losses so far this year to 1,230 and to 1,933 since the war started.

No Progress At Session In Geneva

All Parties Confer With U.K. Chairman

GENEVA, Nov. 7 (Reuters).—The Geneva conference on Rhodesia appeared stalemated today as black nationalist and white negotiators indicated no progress toward fixing a date for independence under black majority rule in the breakaway colony.

The conference chairman, Ivor Richard of Britain, met the four black delegations and the white Rhodesian negotiators separately to seek agreement on an independence date—regarded as a key to progress toward establishing an interim government in Rhodesia.

But the delegations reported scant progress.

"We have failed to agree," said Robert Mugabe, political spokesman of the biggest guerrilla faction fighting white minority rule in Rhodesia.

Alliance Forged

"I don't see any progress" was the verdict of Joshua Nkomo, who leads one faction of Rhodesia's African National Council. Mr. Nkomo and Mr. Mugabe have forged a loose alliance for the talks.

The nationalists have demanded independence within 12 months, Britain has suggested a 15-month transition period and the white Rhodesians, led here by Foreign Minister Pieter van der Byl, have said the preparations for independence could take 23 months.

Mr. Richard, who is the British ambassador to the United Nations, started his crowded day by conferring separately with Mr. van der Byl and one of the nationalist leaders, the Rev. Ndabaningi Sithole.

No Change

The chairman said his talks with Mr. Sithole resulted in some progress, but the nationalist leader himself said that, during the 75-minute meeting, he and Mr. Richard had not changed their positions.

Mr. van der Byl, asked if there had been any narrowing of the gap on the independence date issue, said: "No, no."

Further talks are scheduled for tomorrow.

Nations Urged to Stimulate ...conomies to Avoid Downturn

By Hobart Rowen

...ASHINGTON, Nov. 7 (WP).—...n international group of pri... economists warned today ... unless the United States, ...an and West Germany im...diately shift their policies to ...d expansion the world may ... a new economic downturn.

...e American contingent in the ...p included a leading Republi... expert, Prof. Paul McCracken ...the University of Michigan, ...was chairman of the Presi...'s Council of Economic Ad...s in the administration of ...ard Nixon.

...bers in the panel come from ...da, Japan, West Germany, ...in, France and Italy.

...effect, the economists called ...major industrial countries to ...ae the "slow growth" policy ...d upon by President Ford ...six other heads of state at ...mmit conference last June in ...to Rico.

...that time, the main world... fear was a resurgence of ...tion. But an economic ...s" began in all leading in...rial nations last summer and ...eaders to get worse without ...ctive action, the economists ...

"Unemployment and unutilized capacity in most countries are at levels which, if continued long, would have serious implications for domestic social and political instability in some countries and for the maintenance of a liberal international economic order," their statement said.

Philip Trezise of the Brookings Institution, who served as chairman of the group of economists, said that the major countries "are in a position to move somewhat faster" because they all have unused capacity and "excessive" unemployment.

'Locomotive' Nations

And as major powers—in effect, "locomotive" countries that can pull the smaller ones along into a healthier climate—the United States, West Germany and Japan have an obligation to stimulate their economies at home, he said.

President-elect Jimmy Carter, after the publication of discouraging October reports on prices and unemployment, indicated last week that he and his advisers are considering a tax-cut proposal

(Continued on Page 2, Col. 5)

'Scaring Everybody'

...he slowdown is gaining so... momentum, it is scaring ...body," one of the group said ...their meeting here at the ...kings Institution.

...e three-day conference was ...sored by the Kiel Institute ...World Economics, the Japan... ...omic Research Center and ...kings.

...of the economists at the ...ing emphasized that their ...—the eighth in five years— ...inspired by realization that ...e recent inflation and re... ...were worsened by the ...of policy-makers to con... "the cumulative effects of ...pments and policies" in ...ries outside their own.

..."economists avoided the ..."recession," but that was ...y what they had in mind.

Arafat's Leadership Faces Challenge

PLO to Study Its Tactics and Goals in Lebanon

By James F. Clarity

BEIRUT, Nov. 7 (NYT).—The Palestine Liberation Organization, weakened by its setbacks in the Lebanese civil war and seriously divided by factional disputes, is beginning a period of painful self-reappraisal.

The reappraisal is expected to begin formally in the next few days at a meeting of the PLO's Executive Committee. To be decided is what the organization should do, immediately and in the long run.

The Executive Committee is expected to take up the special problems of existence under the close surveillance of Syria, which in effect will have virtually total control of Lebanon through its army's peace-keeping force that will take up positions in the country in the next few days.

The PLO must also deal with serious Syrian pressure for replacement of Yassir Arafat as the organization's leader.

The importance and urgency of the Executive Committee session, according to Arab and Western analysts, stem from the official announcement that the Palestine National Council will meet next month for the first time since June, 1974. The council, which is a sort of parliament in exile of the Palestinian people and in theory controls Mr. Arafat's Executive Committee, but not in fact, is expected to try to coordinate efforts toward the immediate and eventual goals.

Various Issues

This involves, the analysts feel, a thorough re-examination of what would be acceptable to Palestinians as an independent state, the question of Mr. Arafat's leadership, and how the Palestinians should deal with expected moves to return the Arab-Israeli dispute to the negotiating tables of the Geneva conference sometime next spring.

And it would be at the council meeting, to be held in Cairo, that any serious challenge to Mr. Arafat's leadership could emerge.

At the Executive Committee meetings here in the coming days, Mr. Arafat and his supporters must consider restrictions of life under what in effect amount to Syrian occupation forces, although the peace-keeping troops are under the nominal command of President Elias Sarkis and Col. Ahmed al-Hajj, the Lebanese Moslem officer appointed by Mr. Sarkis to command the force.

Knowledgeable Palestinian officials say that they have no choice but to accept the Syrian occupation, but they insist that they will not surrender so much of their considerable weaponry as to weaken themselves even further. The Palestinians say also that they will accept units of the Arab force—now officially called the "deterrent force"—in areas of Beirut and Lebanon still controlled by armed Palestinian guerrillas. The Palestinians expect, but are not sure, that their areas will be patrolled not by Syrians but by troops of the force from Saudi Arabia, the Sudan, Yemen and South Yemen and the United Arab Emirates, the other nations that are to make up the minority of the 30,000-member peace-keeping force.

Staging Area

Palestinian officials, who now smile sarcastically at references to Syria's continuing claim it is still the principal protector and champion of the Palestinian movement, note with some satisfaction that their guerrillas are once again establishing themselves at camps in the Arkub, the Lebanese area on the Mount Hermon slope used in the past by the guerrillas as a staging area for raids into Israel.

The Palestinians also acknowledge that the supply line from Syria to the Arkub has been reopened. But some Palestinians here consider these events as Syrian gestures to serve the pur-

(Continued on Page 2, Col. 4)

...s Bomb Wrecks ...el Firm's Office

...N, Nov. 7 (UPI).—A power... ...wrecked the Paris ...of the National Company ...onic Fuel Research today, ...police said there were no ...es. ...that the explosion ...ruined the company's ...ice and shattered ...s throughout the building. ...fire was quickly ...under control by fire... The police said the attack ...was not immediately claim... ...likely the work of mili... ...opposed to the spread of ...r technology.

Associated Press.
FRONTLINE—President Julius Nyerere of Tanzania, the host, in white shirt, with President Kenneth Kaunda of Zambia, left, and President Agostinho Neto of Angola in Dar es Salaam, where African frontline heads of state were meeting on Rhodesia tactics.

Europeans Stall Over New U.S. Charter Rules

WASHINGTON, Nov. 7 (WP).—European nations have been dragging their feet in accepting new U.S. rules for low-cost charter flights from the United States, government sources said yesterday.

Approved in September by the Civil Aeronautics Board, the rules represent a liberalization of charter-flight regulations and could be expected to expand the availability of the flights and to lower their cost. But, in order for the flights to begin, the rules have to be accepted by foreign governments. Applications at CAB indicate that the charters may cut in half the cost of flights to many places.

U.S. sources said yesterday that the Europeans have not formally rejected the new "advance-booking charters" but informal soundings from Britain, France and West Germany were described as "not encouraging."

Representatives of the European Civil Aviation Conference, an informal coordinating group of 19 nations, will be in Washington this week for discussions on charters. Basically, they are said to be worried that the new charters will divert passenger traffic from their scheduled airlines.

CAB chairman John Robson yesterday said that while the U.S. charter rules themselves apply only to travel starting in this country, the government "made an effort to harmonize its proposals with European charter rules." Each government has its own regulations.

Supporters Question Policy

Italy Reds' Balancing Act Strained

By Alvin Shuster

ROME, Nov. 7 (NYT).—One Italian newspaper carried a cartoon last month of Enrico Berlinguer, the Communist party chief, standing on a stage ducking overripe tomatoes. Another suggested that the Communists had a foot in the door of government now but could not remove the foot and could not open the door.

The cartoon and the comment reflect some of the current problems of the Communist party, Italy's largest after the governing Christian Democrats. And Mr. Berlinguer, who has tried to keep his party on the path of moderation, has found himself under increasing criticism for a policy that helps keep the Christian Democrats in power.

There are no signs that Mr. Berlinguer and the other party leaders have lost control. They are handling the strains within the party and keeping the stresses under control, but they are undoubtedly concerned about so much unease among the rank and file.

"In the last few days we have held thousands of popular assemblies to explain the delicacy of the moment and our initiatives," Mr. Berlinguer said recently in a speech in southern Italy. "In doing so, we have consolidated and widened our links with the masses."

Masses Misunderstand

The problem with the masses is that they do not quite understand why the Communist party decided after the June elections to drop its formal opposition and abstain on crucial votes in Parliament, thus insuring the survival of the one-party government of Christian Democrats.

In short, many Communists feel that they are being asked to prop up an unpopular administration that is planning unpopular economic measures needed because of its own past mistakes.

The Berlinguer line is that there is no alternative to abstention because otherwise the government would fall and everyone would be worse off in the ensuing economic and political crisis. He adds that it represents merely a temporary phase that will lead in time to a reshaping of all of Italian society.

Whatever the extent of the internal problems of the Communists, they have been doing quite well since the elections. In recent weeks they have been consulted *as never before* by the Christian Democrats on an evolving economic package and, indeed, on other matters that have surprised some Christian Democrats on the right of the party as well as some diplomats.

More Consulting

"Much more consulting with the Communists is going on around here than many people realize," a diplomat said. "The Christian Democrats are becoming conditioned to talk just about everything over with the Communists."

Some politicians report, for example, that the government led by Premier Giulio Andreotti is now clearing some appointments with the Communists, including promotions for the police and the military. The politicians suggest that one or two of the promotions were delayed because of Communist hesitation.

Moreover, with their increased share of seats in Parliament as a result of the elections, the Communists are enjoying important power in the Chamber of Deputies, where for the first time they hold the speaker's job and the chairmanships of several committees. With most major cities, including Rome, now run by Communist mayors, the party appears to be moving inevitably toward seats in the Cabinet of the national government.

At some point the party will present its bill for what it regards as its good behavior toward the Christian Democrats. Officially, the party still argues for a government of national emergency that would include all democratic political forces, including themselves and the Christian Democrats, a theme repeated last week by Mr. Berlinguer.

Economic Efforts

The party's chances of obtaining that share of national power hinge in part on the outcome of the present efforts to achieve economic stability and curb an inflation rate now running at just under 20 per cent.

Success might slow the Communist advance, although the party would hope to reap benefits by claiming credit for its contributions. Failure might bring an invitation to the Communists from the beleaguered Christian Democrats to come into the government, or, barring that, it might translate into even more votes for Mr. Berlinguer next time.

Accordingly, there is no easy answer to the question many here are asking: Is abstention good or bad for the Communists? In the short run, given the internal troubles, the party's policy appears to have drawbacks to many of its followers. But in the longer term the policy could enhance the party's chances.

For the time being, Mr. Berlinguer is trying to calm his supporters, explain just what the party is doing and help shape the emerging economic program. As it to satisfy the internal demands for a little more aggression, he called recently for a conference of all parties on the economy.

Leftists in Agreement

ROME, Nov. 7 (UPI).—Italy's Communists and Socialists reported initial success yesterday in an effort to work out a common line that would enable them to dictate government economic policies.

"Our discussions gave us a chance to note a wide convergency of views and to identify issues on which further in-depth study is needed," economic experts from the two parties said in a statement at the end of a six-hour meeting.

The parties said they agreed in principle with the government's austerity measures but felt there are "corrections and choices to be made."

French Ambassador Is Killed In Yugoslav Hunting Mishap

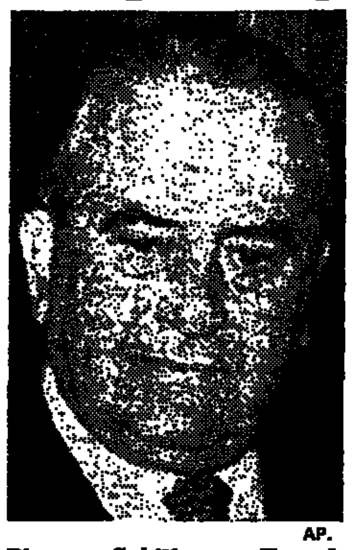
By Malcolm W. Browne

BELGRADE, Nov. 7 (NYT).—Pierre Sebilleau, the French ambassador to Belgrade and dean of the diplomatic corps in Yugoslavia, was fatally wounded by a fellow diplomat while on a hunting trip yesterday morning.

Diplomatic sources said that Mr. Sebilleau, 64, was shot in the back at close range when Austrian Ambassador Alexander Otto's gun discharged accidentally.

[Judge Misa Popovic of Zrenjanin, who investigated the shooting, ruled it an accident, UPI reported. Diplomatic immunity would bar any punishment of Mr. Otto under Yugoslav law.

[Judge Popovic said in his ruling today that after the signal for the hunt to end was given, Mr. Otto, "incautiously handling his rifle, inadvertently fired a bullet, hitting another participant of the hunt in his back from very close quarters."]



AP.

Pierre Sebilleau, French ambassador to Yugoslavia, killed in hunting accident.

Hunting Party

Mr. Sebilleau, other diplomats and high Yugoslav officials were hunting in the province of Vojvodina, north of here, on an outing organized and led by Milos Minic, Yugoslavia's foreign secretary. Mr. Minic and others accompanied the wounded ambassador to a hospital, where he died.

Mr. Minic sent a telegram of sympathy to the French Foreign Ministry, informing it of Mr. Sebilleau's "tragic death."

A diplomatic source said the French ambassador was shot from a distance of "two or three meters."

Mr. Sebilleau was also accompanied to the hospital at nearby Zrenjanin by Radovan Vlajkovic, head of the collective presidency of Vojvodina Province.

Encouraged by Tito

Diplomatic hunting trips in Yugoslavia have been encouraged over the years by President Tito, who is an ardent hunter. The President, who frequently entertains visiting foreign chiefs of state by taking them into the mountains to hunt bear or other game, did not participate in yesterday's hunt.

Mr. Sebilleau had served as his country's ambassador to Yugoslavia since June 2, 1970. He is survived by his widow and two daughters.

Mr. Sebilleau and his staff had been preparing for a visit to Yugoslavia scheduled next month by the French President, Valéry Giscard d'Estaing.

Israel Is Beset By Labor Unrest

TEL AVIV, Nov. 7 (UPI).—Civil engineers went on strike today and hospitals turned away patients during a day of labor unrest over pay claims that involved one out of every four workers in the public sector and threatened to idle much of the Israeli economy.

The ports of Haifa, Ashdod and Eilat were closed by a strike by marine pilots. Workers at the Dead Sea chemical plant refused to release truckloads of potash for export until their demands are met.

Other workers threatening strikes or slowdown action included gasmen, X-ray technicians, driver's license examiners, social workers, state attorneys, high school teachers, customs inspectors and officers in the merchant fleet.

800 Pro-Nazis At German Rally

MANNHEIM, West Germany, Nov. 7 (Reuters).—About 800 Nazi supporters, many dressed in black shirts and wearing the Nazi insignia, today held a six-hour rally to honor Germany's Nazi war heroes.

Hundreds of policemen protected the social club where the rightists gathered after 300 demonstrators paraded through Mannheim in protest against the rally.

In West Berlin, police said that they had seized a bust of Hitler and a machine-gun in a raid last night on an apartment where 13 persons were planning to set up a neo-Nazi party.

Tito Back at Work

BELGRADE, Nov. 7 (UPI).—President Tito, 84, last week resumed his state activities, fully recovered after a liver ailment that forced him to cancel all official engagements Sept. 11.

United Press International.

GREEK FLOODS—Ruins of the Temple of Artemis in eastern Attica, built in the 5th century BC, were flooded to a depth of more than a meter, following rains.

Business Booms but So Do Prices

Lebanese Influx on Cyprus Is a Mixed Blessing

By Steven V. Roberts

LIMASSOL, Cyprus, Nov. 7 (NYT).—A recent issue of the Cyprus Mail was full of notices, some in Arabic, about ships sailing between Cyprus and Lebanon. Other advertisements promoted restaurants, office buildings and hairdressers catering to Lebanese.

On the front page, the Mail reported that a Lebanese had been arrested with a suitcase full of hashish and the police were investigating a drug-smuggling ring.

Thousands of Lebanese have poured into Cyprus in recent months as the war in Lebanon got worse. The flow has slackened now in the wake of Arab peacemaking efforts, but as the Mail indicates, the Lebanese are making a sizable and somewhat contradictory impact on this island of 650,000 people.

Many Lebanese here are wealthy, with hard currency to spend, and they have given an enormous boost to hotels, restaurants and real estate brokers. The ports of Limassol and Larnaca are jammed with ships carrying freight and passengers to both sides of war-divided Lebanon.

Prices Skyrocket

At the same time, rents and prices have skyrocketed. The average Lebanese tends to be a more freewheeling character than the rather sober-sided Cypriot, and the cultural clash has produced some incidents.

Paradoxically, there has been little conflict between Christian and Moslem Lebanese, and they often drink, talk and do business together. Many Lebanese of both religions insist that their country's problems are caused by outsiders, primarily Palestinians, and not each other.

Cyprus is about 150 miles west of Beirut, and the first wave of Lebanese started arriving about a year ago. Many were Christians who could not reach the airport and were forced to travel by ship. Most left quickly for other destinations in Europe or the Middle East.

Many Motives

When the Beirut airport closed and the road to Damascus grew treacherous, Cyprus became the main exit from Lebanon. People came with many motives—to do business, to protect their families, to avoid conscription. Almost all came to the Greek-held sector, which has better port, hotel and communications facilities than the Turkish side.

As the total swelled to about 15,000 in September, the worried Cypriot government limited visas for Lebanese to about 30 days. "We don't want people to immigrate here," said a government official. "We can't find work for all of our own people."

Canada and Australia—the two countries willing to accept large-scale migration from Lebanon—set up special offices here to handle the demand. Since May, the Canadian office in Limassol has approved 4,500 applications for immigrant status, as opposed to 1,462 for all of last year.

Many Lebanese have business interests throughout Europe and the Middle East, and Cyprus attracted executives in such fields as shipping, tourism and insurance. Here, they can stay in touch with Beirut by boat and other cities by an efficient telecommunications system. Every week, it seems, the airport is adding flights to places like Benghazi, Libya; Jidda, Saudi Arabia and Kuwait.

Outside businessmen are generally barred from doing business within Cyprus. *The Cypriots* are still recovering from the war of 1974 and do not want competition.

One booming business is the shipment of goods into Lebanon. They are often unloaded here and switched to small craft for the run eastward. The main cargoes are food, fuel and such raw materials as cloth. And rumors persist that Cyprus is also a transit point for weapons.

3 Nations Urged to Stimulate Economies to Avoid Downturn

(Continued from Page 1)

as a stimulus for the U.S. economy next year.

Basically, this is the approach that the economists recommended for West Germany and Japan as well.

"Germany, Japan and the United States were singled out as appropriate engines of world economy recovery," the economists said, "because of their weight in the international economy, their relatively low inflation rates and their comparatively strong balance-of-payments positions. A similar shift in economic policy would appear to be appropriate for a number of other countries."

Ironically, this call for leadership by the three leading industrial nations to expand economic activity was exactly the prescription that heads of state adopted a year ago at a summit meeting in Rambouillet, France, and then abandoned at Puerto Rico in fear that inflation might become the dominant economic worry.

Mr. Tresize made it clear that the group felt not only that the Puerto Rico call for slow growth needed to be modified, but that conferees at the annual meeting of the International Monetary Fund last month erred in stressing inflation's perils. "The general feeling at that session in Manila was that economic growth goals had to be limited, even at the expense of delaying a return to full employment."

The economists meeting at Brookings said they were recommending an about-face in policy with full recognition that the rates of inflation remain "too high everywhere."

But they argued that greater rates of activity in the United States, West Germany and Japan would enable them to import more goods, and this would generate an export-led expansion in the smaller industrial countries and other non hard-pressed, such as Britain and Italy.

Kissinger Role Denied in Alleged Two-China Talks

WASHINGTON, Nov. 7 (UPI).—The State Department yesterday denied reports that Secretary of State Henri Kissinger arranged meetings in Peking recently between Nationalist and Communist Chinese officials.

But a department spokesman would not comment on whether or not such meetings had occurred.

A Japanese newspaper, Asahi Shimbun, reported yesterday that three emissaries from Taiwan and top Peking officials conferred recently in a meeting arranged by Mr. Kissinger. The paper's Peking correspondent also said there were unconfirmed reports there that Mr. Kissinger and Nationalist Chinese Premier Chiang Ching-kuo had personally visited Peking in connection with the meeting, while other reports said Mr. Chiang went without Mr. Kissinger.

The State Department spokesman said Mr. Kissinger had not been in Peking recently.

The Japanese correspondent said the emissaries proposed a unification plan in which Taiwan maintained its military forces, retained its administrative personnel in principle and reserved its autonomy to some extent.

[In Taipei, the Nationalist government denied the reports, according to the Associated Press.]

3 Arabs Receive 15-Year Terms for Attack in Rome

ROME, Nov. 7 (UPI).—A Rome court sentenced three Arabs to 15-year prison terms yesterday for staging a submachine-gun attack on the Syrian Embassy to protest killings of Palestinians in Lebanon.

One of the defendants, addressing the court in Arabic after the sentencing, challenged its competence and said Italy should not concern itself with the raid on the embassy.

Politicians predicted before the trial that the three would be convicted, then pardoned by President Giovanni Leone and expelled from Italy, as has been the case with other Arabs accused of terrorism in recent years.

Social Democratic parliamentary leader Luigi Preti, in a charge the government still has not answered, said last month "there is a widespread belief that a secret bilateral treaty exists between Italy and Palestinian organizations, leaving them free to operate on our territory against foreign missions in return for a promise not to attack Italian targets."

The three stormed the Syrian Embassy on Oct. 11, took two hostages and held them for an hour before surrendering to Italian police.

PLO to Review Tactics, Goals After Its Setbacks in Lebanon

(Continued from Page 1)

poses of Damascus at least as much as those of the Palestinians.

Arab and Western analysts note that Syria can control most Palestinian movement near the Israeli border and can use this control as a diplomatic weapon in seeking to force Israel to restore the Syrian territory it has occupied since the 1967 war.

Palestinian officials here say that the Syrian efforts—including calls for changes in the guerrilla leadership and the replacement of Mr. Arafat—will fail. Noting that Mr. Arafat was able to retain control of the PLO after it was severely pummeled and its guerrillas expelled from Jordan five years ago, the officials say that he will retain his power and title as chairman of the Executive Committee.

Move in Council

Palestinians here are also aware of what they see as a Syrian-encouraged move to enlarge the membership of the Palestine National Council at next month's meeting in Cairo. The enlargement is seen by Palestinians here, and by some interviewed recently in Damascus, as an attempt to dilute Mr. Arafat's strength in the organization.

Dissension in the PLO is another serious problem to be dealt with by Mr. Arafat at the Executive Committee meeting here and at the council meeting next month.

The former Executive Committee member groups that have long been at odds with Mr. Arafat, including the group headed by Dr. George Habash and the factions supported by Iraq and Syria, are not expected to attend the Executive Committee sessions.

So Mr. Arafat's task at the Executive Committee meeting, and the council session, remains one of persuading powerful Palestinians that while they have lost on the battlefield to Syria, they must continue under his leadership to seek the creation of an independent Palestinian state.

But his task is complicated by the fact that now more than ever, Syria and its anti-Palestinian ally, King Hussein of Jordan, are in a position to deal with Israel by offering guarantees of firmer Arab control over the Palestinians.

Foul Air Gets Guy Fawkes Execution Stay

BELLEVUE, Wash., Nov. 7 (AP).—In the best tradition, about 70 members of Seattle's Britannia Club gathered to burn Guy Fawkes in Bellevue's Killarney Glen Park. But the Puget Sound Air Pollution Authority had the last word—tradition or no tradition.

The agency, with air pollution readings at their highest levels in two years, banned all open burning Friday.

Myra Wright, the club's president, said members would be back next Friday, air quality permitting, to burn an effigy of Fawkes, a zealous Roman Catholic who nearly succeeded in blowing up Parliament during the reign of James I. Britain celebrates the occasion by burning Fawkes in effigy and shooting off fireworks every Nov. 5.

Riot-Control Tactics Endorsed

Head of Police Sees S. Afri[ca] Able to 'Handle' Urban Unre[st]

By Jim Hoagland

PRETORIA, Nov. 7 (WP).—South Africa will continue to experience "a certain amount of urban unrest in the future, but nothing that we cannot continue to handle," Police and Justice Minister James Kruger predicts.

"Efficient" police action and the loyalty of the country's black population have defeated "serious efforts to plant the seeds of revolution here through strikes and urban terrorism," Mr. Kruger asserted in an interview Friday.

Clashes between police and black demonstrators and rioters in segregated black townships near Johannesburg and in the Cape Province in the last five months have left about 370 persons dead, according to unofficial estimates. About two-thirds of the deaths resulted from gunshot wounds, according to a coroner's report.

Black groups accuse the police of having opened fire without provocation on peaceful gatherings such as funerals and of indiscriminate bloodshed when confronted with demonstrations. White liberals also have made these charges, while conservatives are demanding even stronger police action against the threat of black uprisings.

Mr. Kruger endorsed the riot tactics used so far and said they would continue to be used, with a few modifications. Without giving details, he said that South African police officials had visited the United States and Europe before the disorders to study riot control and had concluded that South Africa had to develop its own techniques.

The U.S. Embassy here said it could not comment on the reported South African police visit.

Confidently asserting that the problem had been reduced to "the nuisance of some students running around that we have to chase," Mr. Kruger added that "in the long term we must delve deeply to find the causes of this, and insofar as there are legitimate grievances, make an honest assessment of them."

Mr. Kruger's remarks went much further toward conceding that there may be underlying social, economic or political causes for the rioting than has any statement made by top officials for publication inside South Africa.

Communist Agitators

Government officials have consistently maintained that Communist agitators were solely responsible for the unrest, triggered by student demonstrations in June against the white minority government's apartheid policies.

Mr. Kruger emphasized at several points in the interview a need for "nonextremists on both sides to make contact with each other and thrash out any problems that arise together, to find solutions acceptable to both black and white," and his government's "commitment to end racial discrimination here."

While the country has been free of large-scale disturbances for the last six weeks, there have been isolated, almost daily arson attacks on schools, police stations or other institutions during that period. But Mr. Kruger pointed to the failure last week of a call by black student activists for a five-day work stoppage and economic boycott of white businesses in Johannesburg as proof that the back of the protest movement had been broken.

Documents captured by the police "show that the strike was to be the second phase of a revolutionary effort, with urban terrorism being the third phase," Mr. Kruger said. "But it's been a failure, because 70 to 75 per cent of the black people would have nothing to do with it. The local urban black man is fundamentally a law-abiding man."

'Civilized Country'

His forces "could have stopped this the way the Russians stopped it in Hungary—but a civilized country like ours must use minimum force, even if it takes longer to stop the trouble. We can't fight gangsterism with gangsterism."

Impartial and experienced for[eign sources report that the] force, which has had a[lmost] sophisticated riot-control [train]ing and which possesses [pro]tective equipment or [...] nonlethal weapons, [...] gunfire almost immediately [...] potentially threatening [...]

About half of those w[ho died] from gunshot wounds w[ere hit] from the back, a gov[ernment] pathologist told an official [...] two weeks ago.

UN Urges West To End Flow of South Africa Aid

UNITED NATIONS, N.Y., Nov. 7 (UPI).—The General Assembly has called on Western powers to stop supplying South Africa with arms and nuclear know-how and to end any trade that helps South Africa retain power in Namibia (South-West Africa).

In the vote last week, the Assembly approved a resolution submitted by the decolonization committee to condemn "foreign and other economic interests" impeding the granting of independence to the black majorities of Rhodesia and Namibia.

The resolution particularly condemned the United States, Britain, France, Israel and West Germany for continuing to supply nuclear and military equipment to South Africa.

The resolution also called "once again upon all states to discontinue all economic, financial or trade relations with South Africa concerning Namibia and to refrain from entering into economic, financial or other relations with South Africa, acting on behalf of or concerning Namibia, which may lend support to its continued illegal occupation of that territory."

Pollution Peril To Taj Mahal

NEW DELHI, Nov. 7 (Reu[ters]).—The Taj Mahal, [the] 300-year-old white [marble] masterpiece, is in danger [of] turning yellow.

The monument is threat[en]ed by sulfur dioxide [discharg]ed by railway engines, [factory] chimneys and an oil re[finery], an Indian news agency, [Sama]char, reported today.

It quoted experts as [saying] that rainwater could turn [the] sulfur dioxide into sulfu[ric] acid, which would damage [the] monument.

But Samachar said [the] refinery, the main danger, [had] decided to lower the [sulfur] content of its furnaces, [using] low-sulfur oil from Bombay [offshore] wells and desulfuriz[ed] fuel gases.

Spain Finds No Bribery By Lockheed

MADRID, Nov. 7 (UPI).—[The] government announced [today] that the "Lockheed affair" [in] Spain—billed by the press [as a] major scandal—involves [...] lion pesetas ($1.1 million) [in] regular commissions but [no] bribes.

Release of the findings [of a] Supreme Court probe after [...] months of suspense over the [...] that the press said would [pro]vide a "payoff list" of as many [as ...] persons.

Five Spaniards, including [...] senior air force officers, re[ceived] the $1.1 million for represent[ing] Lockheed Aircraft Corp. in c[on]nection with a sale to the Span[ish] Air Force of 10 Hercules [trans]port planes, the government [said in its] report on the investigation.

The two officers involved, Gen. Luis Rey and Col. Carlos Gr[andal], both 61, have already [been] relieved of their duties.

"Among the documents exam[ined] there is no 'list' except [one] of the people who received Christ[mas] gifts, about 12 gifts per y[ear] whose joint value did not [exceed] 90,000 pesetas [$1,325]," the [re]port said. It did not say [who] received the gifts.

Swiss Accounts

The money for the commiss[ions] was brought into Spain clan[destinely] from numbered [bank] accounts in Switzerland [and] changed into pesetas on the bl[ack] market, the report said.

It said that while Gen. R[ey] and Gen. Grandal were, in [fact,] managing the business of re[presenting] Lockheed in Spain, [this] was done "without the authoriza[tion] or even the knowledge [of] their superiors."

The basis for much of the in[vestigation] was 1,588 pages [of] photocopied material provided [by] the U.S. Justice Department. The probe covered dealings in the year 1971-1975.

"The conclusions are, basically, that there are no indications [of] bribes to favor commercial opera[tions], whose evolution was com[pletely] correct," the 800-word statement said.

It went on, "However, the [Su]preme Court] report shows th[at] specific irregularities have been proved in the handling of Lock[heed] business in Spain and by [its] representatives."

A corporation, Avionics, rep[resented] Lockheed. Two of the three men officially listed as the sole stockholders in Avionics [ac]tually had no investment or [...] in the company, the report s[aid].

Coup in Burundi Laid to Injustices

NAIROBI, Nov. 7 (AP).—Burundi's ambassador in Uganda was quoted yesterday as saying the Burundi Army overthrew President Michel Micombero because he failed to implement economic policies and practiced "injustices and other evils."

Uganda radio, monitored here, said Ambassador I. Kebenge told Uganda President Idi Amin in Kampala on Friday that Gen. Micombero's government was split by conflicting factions and was overthrown Tuesday.

Mr. Kebenge said Burundi's new leader, Lt. Col. Jean-Baptiste Bagawa, suspended the constitution. The new ruling Supreme Revolutionary Council of 30 officers would reorganize government institutions and the ruling party, the envoy said. The envoy was quoted by the radio as saying the security of foreigners and their property in Burundi was guaranteed.

Ford Utilized Device to See If Carter Lied

Voice Stress Analysis Used for 2 Debates

By Morton Mintz

WASHINGTON, Nov. 7 (WP).—The Ford campaign used a controversial machine called a "voice stress analyzer" to try to audit Jimmy Carter's truthfulness in the first two presidential debates, a Republican National Committee official said yesterday.

In the process, the machine's manufacturer told a reporter, he found that President Ford's voice registered "heavy stress" each time he mentioned the word "Congress."

For undisclosed reasons, the President Ford Committee chose not to publicize the result of either the Carter or Ford analysis. Obviously, whatever they found in those recordings was not used," Peter Teeley, a committee spokesman, said.

Eddie Mahe Jr., executive director of the Republican National Committee, said that he and Stuart Spencer, the deputy campaign director, were reluctant to publicize the Carter result because "this was the kind of thing that can whip around on you and blow up on you 14 ways from Sunday."

Change the Outcome

The maker of the device, Rick Bennett of the Seattle suburb of Issaquah, said he had hoped to have the Carter result publicized before the election, claiming it would have changed the outcome. He refused to detail the finding, saying that in the post-election period, 51 per cent of the voters—those who voted for the President-elect—have "a vested interest" in Mr. Carter and the disclosure might lead to the ruination of his fledgling manufacturing enterprise.

Asked why Mr. Ford showed heavy stress whenever he said the word "Congress" during the Sept. 23 and Oct. 6 debates, Mr. Bennett said he believed the President's tension reflected the difficulty of dealing with a House and Senate dominated by Democrats. For that reason, he said, he urged publicizing the finding.

Mr. Spencer feared, however, that voters would view Mr. Ford's stress as meaning that, if elected, he could not work with a Congress certain to be Democratic again, and for that reason Mr. Spencer preferred silence, Mr. Bennett said in a telephone interview.

Voice analysers are supposed to measure modulations when a lie is told.

Ex-Aide of ITT Accused of Hiding Chile Information

WASHINGTON, Nov. 7 (WP).—The Justice Department has charged the former Latin American public relations director of International Telephone and Telegraph Corp. with failing to tell a Senate committee that he exchanged information with Central Intelligence Agency employees in Chile and elsewhere.

The criminal charges were filed Friday in U.S. District Court against Harold Hendrix, a former newspaper reporter. He allegedly withheld the information from a Senate subcommittee that was investigating ITT's activities against the Salvador Allende government and ITT's relationship with the CIA there.

Informed sources said Mr. Hendrix had agreed to plead guilty to the misdemeanor charges. His attorney refused comment on the case.

Other sources familiar with the investigation said the Justice Department had been examining the testimony of several witnesses before the Senate subcommittee on multinational corporations, including that of ITT chairman Harold Geneen and former CIA director Richard Helms. Mr. Hendrix testified before the subcommittee on March 1973, as it was hearing allegations that ITT had interfered with the Chilean presidential campaign in 1970.

UAW to Pick Deadline For a Walkout at GM

DETROIT, Nov. 7 (AP).—The United Auto Workers will set a strike deadline at General Motors Corp. this week after reaching a last-minute tentative agreement for hourly employees at Chrysler.

UAW and Chrysler negotiators reached an agreement for 109,000 U.S. and Canadian hourly employees Friday. In negotiations with GM, the union will be trying to win a pact for 390,000 workers.

Strike Is Over

GRANGEMOUTH, Scotland, Nov. 7 (Reuters).—A strike at British Petroleum's giant petrochemical plant here ended today.

United Press International.

SUNDAY STROLL—President Ford and wife Betty heading back to White House after walking to Lafayette Square to check building he will be using after leaving office.

USIA Employees Ask Carter To Retain Policies of Keogh

By David Binder

WASHINGTON, Nov. 7 (NYT).—A group of 148 middle-level and lower-grade employees of the U.S. Information Agency has petitioned President-elect Jimmy Carter to continue the policies of their outgoing director, James Keogh.

Mr. Keogh, one of the few senior holdovers from the last Nixon administration, last week submitted his resignation to President Ford, effective at the end of the month.

Mr. Keogh had strongly opposed recent proposals to reform the information agency by bringing its cultural and informational activities into closer consonance with the State Department while creating a completely separate Voice of America.

The information agency has been largely autonomous for many years.

In March of last year, an independent, 21-member panel headed by Frank Stanton, former president of CBS, proposed that the USIA be abolished and most of its operations transfer..d to the State Department.

The reorganization plan submitted to Mr. Ford by the Panel on International Information, Education and Cultural Relations also recommended that the Voice of America be re-established as a federal agency under a board of overseers, similar to the British Broadcasting Corp. and West Germany's Deutsche Welle.

The Stanton panel's proposal was endorsed by a number of senators and congressmen, but strongly contested by Mr. Keogh, who succeeded in rallying Capitol Hill conservatives to block legislative reform of his agency.

The petition sent to Mr. Carter accuses the Stanton panel of attempting to "compound the fragmentation" of U.S. information and cultural activities.

It proposes instead that the USIA be given the cultural affairs functions presently conducted by the State Department's Bureau of Educational and Cultural Affairs, and that it retain control over the Voice of America.

The petition was "by committee" and "with the knowledge" of Mr. Keogh, according to Alan Carter, his public relations officers. Mr. Carter also participated in the drafting. Agency officials acknowledged that the group's proposals largely reflected those of Mr. Keogh on a need to keep the USIA independent from the State Department.

Voter Approval On Taxes Loses In Colorado Poll

WASHINGTON, Nov. 7 (IHT).—Colorado voters have defeated by a 3-to-1 margin a referendum that would have required special voter balloting to approve any new state or local taxes, or any increase in existing taxes.

The National Conference of State Legislatures had said the measure, if approve., would have been the first of its kind in the nation.

A group called Stop Tax Increases worked to have the referendum entered on the state ballot. The group was founded by a Denver electrical engineer, Thomas Morroni, 36, a member of the John Birch Society.

A countergroup called Coloradans Against [referendum] No. 10, largely made up of state and local government officials, raised $50,000 for a court fig.t aimed at keeping the question off the ballot. Unable to do so, the group fought for a "no" vote with newspaper ads.

After the voters rejected the referendum in last week's elections, many officials said this showed Coloradans' confidence in representative government.

2 Italians Fined Over Currency

GENOA, Nov. 7 (AP).—Francesco Ravano, one of Italy's wealthiest businessmen, and an aide were fined a total of $6 million on fraud charges yesterday, but they were released from jail.

Ravano and Enrico Zenoglio were originally jailed in the first major case under Italy's tough new currency regulations that went into effect in March. They were accused of opening foreign bank accounts worth $1.2 million without notifying the government. Ravano is president and Zenoglio general manager of the International insurance company Comitas.

Ravano was fined $4.2 million and Zenoglio $1.8 million. The court also ordered the seizure of the $1.2 million in foreign accounts. The two men still face sentencing under the old currency law involving $8.4 million found in Swiss accounts.

Police Have No Clues In German Kidnapping

MUENSTER, West Germany, Nov. 7 (UPI).—The police said yesterday that they had no concrete clues as to the whereabouts of two persons who got away with 5 million marks ($2 million) ransom money after kidnapping horse show jumper Hendrik Snoek, son of a millionaire.

"We have received some tips from the population, but we are not in possession of any concrete clues on the kidnappers' whereabouts," a spokesman said. The police found Mr. Snoek chained in a shaft of a highway bridge Friday, 80 hours after his abduction.

Despite Aides' Assurance of Victory

Carter Barred Nixon-Pardon Issue

By David S. Broder

WASHINGTON, Nov. 7 (WP).—Jimmy Carter was told by his campaign strategists in the middle of last month that the Nixon-pardon issue could "blow the election wide open" and guarantee his victory over President Ford, Mr. Carter's pollster, Patrick Caddell, has said.

But Mr. Carter declined to use the issue because "he thought he would be elected president and he didn't want blood all over the floor."

Mr. Caddell told that story Friday in the course of confirming the view of the Ford campaign pollster, Robert Teeter, that Mr. Carter's failure to develop a strong answer to the Ford campaign's attack on his credibility as governor of Georgia almost gave the election to the Republicans.

Mr. Teeter said that the effectiveness of the anti-Carter ads was heightened by the fact that voters who saw them still believed that it was Mr. Carter, not Mr. Ford, who was running "a negative campaign."

The rival pollsters conducted their first public postmortem on the election Friday at a joint appearance before the Public Affairs Council and the American Association of Political Consultants. Later, they expanded on their comments in separate interviews.

They agreed that Mr. Carter's 33-point lead at the time of his nomination in July was artificially inflated, that it was hard to find issues that mattered to the voters and that the highly publicized presidential debates did not influence many voters' decision.

However, Mr. Teeter said, the second debate—during which Mr. Ford made his mistake on Soviet domination of Eastern Europe—"left us dead in the water for about 10 days."

Mr. Caddell called Mr. Carter's response to the second debate "a terrible mistake" on the part of the Georgian. "The governor has a mild instinct for the jugular," he said, "and for three days we couldn't stop him" from criticizing Mr. Ford in very strong terms. "He was terribly abrasive," Mr. Caddell said, "and he cost us what we had gained by Ford's mistake in the debate."

On the other hand, Mr. Caddell said, it was Mr. Carter who decided—against the recommendations of his political advisers—not to use the issue of Mr. Ford's pardon of former President Richard Nixon.

Mr. Carter had ruled out the pardon issue at the time of his nomination—a decision that Sen. Walter Mondale of Minnesota, his running mate, publicly rejected and ignored.

Mr. Caddell said that, in the closing days of the campaign, "an emotional appeal" to Southerners to support a Southern-born candidate, a rise in concern about unemployment in the Midwest industrial states and a movement by previously undecided women voters to join their husbands in backing Mr. Carter gave the Georgian his narrow victory.

Meanwhile, aides to President Ford Friday held their first meeting with a representative of Mr. Carter, shortly after Mr. Ford had instructed his Cabinet to continue "the same philosophy, the same programs and the same policies" until Mr. Carter takes over on Jan. 20.

Jack Watson, 38, an Atlanta lawyer who has been planning the transition for Mr. Carter for months, met for an hour with White House chief of staff Richard Cheney and presidential assistant John Marsh, whom Mr. Ford has designated to head the White House transition team. Mr. Watson described the meeting as "splendid."

At the session, Mr. Watson said, he suggested that Mr. Carter and Mr. Ford hold their first post-election meeting near the end of this month. He said the matter "was left with Cheney" to discuss with Mr. Ford.

Mr. Carter has made it clear he does not plan to spend a great deal of time in Washington between now and his inauguration. Mr. Watson said he expects to work closely with Sen. Mondale during the transition period.

Vacation Continues

ST. SIMONS ISLAND, Ga., Nov 7 (AP).—Mr. Carter continued his working vacation today on this south Georgia island.

He said that he and other family members had "a good fishing afternoon" yesterday and caught 17 sea trout in the waters off Musgrove Plantation, the secluded estate where they are staying.

Mr. Carter arrived here yesterday aboard an Air Force Boeing 707. The plantation is owned by Smith Bagley, the grandson of tobacco magnate R.J. Reynolds, and Mr. Carter intends to pay Mr. Bagley, a friend and supporter, between $1,000 and $2,000 for the use of the estate.

Ford Is Resting

WASHINGTON, Nov. 7 (UPI)—President Ford and his family flew to Palm Springs, Calif., today for an eight-day vacation at the desert resort.

U.S. Pledge to UN Fund

UNITED NATIONS, N.Y., Nov. 7 (UPI).—The United States pledged $20 million to the 1977 budget of the UN Children's Fund at a special session of the General Assembly.

Algerians to Vote On a Constitution

ALGIERS, Nov. 7 (UPI).—President Houari Boumedienne's government announced today that a national referendum will be held Nov. 19 to approve a constitution.

The constitution would maintain Algeria as a single-party Socialist state. Mr. Boumedienne is expected to run for re-election in a vote to be held within two months of adoption of the constitution.

Since Mr. Boumedienne came to power in June, 1965, Algeria has had no constitution and has been ruled by the President, a Revolutionary Council and a Council of Ministers. The constitution establishes a national assembly, elected for five years.

U.S. Embassy in London Warns Of Forged State Dept. Document

LONDON, Nov. 7 (Reuters).—The U.S. Embassy here has issued a warning about what it described as a phony State Department document, signed with the name of Henry Kissinger, seeking ways by which the United States can eliminate foreign trade competition.

The Sunday Times, invited by the embassy to view the fake, said in a front-page story that the forged document, of a type known in the State Department as "key intelligence questions," also asked U.S. Embassy officials to provide names of corruptible ministers and officials in several nations, and ways of bribing them.

A U.S. Embassy spokesman verified the story tonight, adding that the document was thought to have been in circulation abroad for some time, but had not got into the press. He said he had no knowledge as to its origins.

The forged document is a rewrite of an original issued by the State Department in November, 1974, seeking economic information.

The real document requests "information as to the likely content and timing of projected domestic and foreign economic policy decisions by government or actions by major economic groups such as unions or producer associations and the sources of uncertainty as to timing or content," the Sunday Times said.

To this the false document adds: "Current and forecasted development of their trade with the U.S.S.R., China and other Eastern-bloc countries and timely, detailed information of possibilities to eliminate their competition and protect important U.S. commercial interests in this area," the newspaper said.

Korean CIA Reportedly Linked to 1974 Pro-Nixon Rallies

By Scott Armstrong and Maxine Cheshire

WASHINGTON, Nov. 7 (WP).—The South Korean Central Intelligence Agency requested the massive demonstrations that followers of South Korean evangelist Sun Myung Moon staged on Capitol Hill in 1974 opposing the congressional impeachment investigation of President Richard Nixon, according to information received by Justice Department investigators.

According to informed sources in both the Justice and the State Departments, the FBI recently learned of two-to-three-year-old secret intelligence reports that the Korean agency asked Pak Bo Hi, a South Korean frequently in residence here who has been Mr. Moon's chief aide and translator, to arrange for the fervent pro-Nixon demonstrations at the Capitol by Mr. Moon's followers.

The information is being used by Justice Department investigators to help determine Mr. Pak's role in an extensive effort by agents of the South Korean government to manipulate public opinion here and influence U.S. congressmen with cash, gifts and campaign contributions, according to informed sources. The investigators are not now directly interested in other activities of Sun Myung Moon and his Unification Church, according to the sources.

Seoul Meeting

According to U.S. intelligence information, Mr. Pak met in the Blue House presidential mansion in Seoul with South Korean President Park Chung Hee, Washington-based South Korean businessman Tongsun Park and Korean CIA officials in late 1970 to discuss plans for the influence-buying here. In a recent statement he gave to reporters without allowing them to ask questions Mr. Pak categorically denied that he had any role in this scheme or any connections to the Korean CIA.

According to an informed source in the South Korean Embassy here, embassy personnel believed that Mr. Pak's activities were directed from Seoul where he was purportedly close to both Park Chung Hee and high ranking Korean CIA officials.

The sources said that the South Korean ambassador to the United States, Hahm Pyong-Choon, was reluctant to get involved publicly with the Unification Church or contact Mr. Pak and Mr. Moon for fear of embarrassment.

As a result of Mr. Hahm's aloof attitude, according to the source, Mr. Pak dealt directly with Seoul. Mr. Hahm deeply resented both Mr. Pak's use of the Unification Church for political activities here and Mr. Pak's ability to use Korean CIA communication lines to Seoul, the source said.

The Korean CIA probably chose to use Mr Pak and the Unification Church to support Mr. Nixon, the source said, because they were sufficiently removed from the embassy to avoid embarrassment to the South Korean government.

Another reason for using Mr. Pak, the source added, was that Mr. Hahm was very optimistic until the very end about Mr. Nixon's chances of surviving the impeachment inquiry.

The South Korean diplomatic source also said that 1974 attempts by South Korean National Assemblyman Ro Chin Hwan to offer campaign contributions to U.S. congressmen friendly to Mr. Nixon were also part of a broad strategy to try to keep Mr. Nixon in the presidency. Mr. Nixon was generally believed to support South Korean requests for economic and military aid.

Nonprofit Group Cited

According to Neil Salonen, president of the U.S. branch of the Unification Church, the demonstrations all took place under the auspices of a nonprofit corporation, the National Prayer and Fast Committee. All of the committee's incorporators are members of Unification Church, according to Mr. Salonen, although persons who were not church members also took part in the demonstrations.

Mr. Salonen denied any knowledge of Korean CIA involvement in inspiring the demonstrations.

Mr. Salonen said his committee was formed to promote a declaration on Watergate made by Mr. Moon in November, 1973, which called for a commitment to "forgive, love, unite." Mr. Salonen had said at the time that Mr. Moon's declaration came from a direct revelation from God that "we ought to forgive this man [Nixon]."

Mr. Salonen said the Moon movement actions were not a pro or anti-impeachment declaration, but rather "emphasized the importance of prayer before" deciding the impeachment question. He acknowledged, however, that the majority of the demonstrators were clearly opposed to impeachment.

It was reported at the time that demonstrators chanted such slogans as "God needs Nixon," "God supports Nixon," and "We support Nixon."

The demonstrations occurred periodically from December, 1973, until Mr. Nixon's resignation in August, 1974. One vigil lasted 27 hours.

Fraser Confirms Gifts

WASHINGTON, Nov. 7 (NYT).—Rep. Donald Fraser, the Minnesota Democrat who sponsored hearings last year that uncovered material now being used in the federal investigation of South Korean influence on U.S. politicians acknowledged yesterday that he had been a recipient of Korean gifts. But he said that "anything of substantial value" had been turned over to the State Department.

His comments came in response to a statement by a Korean assemblyman who said he had given Mr. Fraser a collection of reproductions of Korean paintings during Mr. Fraser's trip to that country last year.

هيئة الأعلام

News Analysis

Carter, Hua Pose Task for Russia

By Peter Osnos

MOSCOW, Nov. 7 (WP).—The Soviet Union started the 60th year of its existence this weekend confronted by an extraordinary challenge: new leadership in both of its principal adversaries in the world, the United States and China.

The multiple uncertainties posed by the election of Jimmy Carter as President and the ascendancy of Chairman Hua Kuo-feng are scarcely present in the bold and optimistic statements that have, as always, marked the state's anniversary celebrations here. Still, concern in the Kremlin's aged ruling councils must be considerable.

For some time now, Moscow's relations with the United States and China have been more or less predictable—a tenuous détente with Washington that did not preclude rivalry yet limited hostility, and an outright feud with Peking, stopping just short of a complete break. Conceivably the basic shape of those relationships will ultimately remain the same, but that is by no means sure.

In a telegram sent Friday to President-elect Carter and an earlier speech by Communist party leader Leonid Brezhnev, the Soviet Union declared its unequivocal intention to go on seeking better ties with the United States. Still, the relative stability achieved in eight years of dealing with the Nixon-Ford administrations, symbolized by the constant role of Secretary of State Henry Kissinger, are clearly at an end. New links are necessary.

Change in Message

Significantly, the one major alteration in the Kremlin message to Mr. Carter, compared with one sent to Mr. Nixon four years ago, is that the word "confidence" in assessing prospects for future relations has been changed to "hope."

Nominally at least, relations with China are also on the same unveering course that they have been in recent years. Many times before the death of Mao Tse-tung, the Soviet Union had said that it had no grievances against Peking that could not be resolved in a spirit of "good neighborly relations and friendship"—given, of course, some willingess in China to do so.

That position still holds. "It must be said," declared Politburo member Fyodor Kulakov in the Kremlin's main anniversary speech Friday night, "that we regard as unjustified and unnatural the fact that friendly relations between the Soviet Union and the People's Republic of China have been disrupted through no fault of our own."

But there is a major difference now in that the demise of Mao and the apparent victory of the moderate Mr. Hua over more radical elments offers Moscow an opportunity to turn blatantly self-serving bids for rapprochement with Peking into reality. By far the most important occurrence at the big Kremlin holiday festival Friday was the fact that Chinese diplomats did not walk out, as they often do.

Indeed, as regards Peking, Kremlin strategy in the changed circumstances is absolutely plain: Woo the Chinese in every way.

Within a matter of hours of Mao's death Sept. 9, the Soviet Union's mammoth propaganda apparatus was retooled and the anti-Chinese polemics that had dominated the Soviet media for so long disappeared. The Kremlin even found it possible to express "deep condolences" over the death of Mao, who only a day earlier had been reviled.

While many Western analysts profess to see no signs of substantive Soviet concessions in the stream of public statements, telegrams (thus far all rejected in Peking) and commentaries, there is no dispute that Moscow—and Mr. Brezhnev personally—has an objective in mind. The Kremlin wants in the worst of circumstances to rightfully claim that the Soviet Union did not obstruct peace with Peking.

And there is always the chance that the new leadership in China might accept one of those overtures from Moscow.

A fascinating parallel in the Chinese and U.S. situations is that as far as Moscow is concerned, both Mr. Hua and Mr. Carter were virtual unknowns six months ago. Both emerged the winners after hard-fought power struggles and the precise nature of their views about Kremlin ties is still obscure. Hence, almost anything is worth trying.

Diplomatic Protocol

On U.S.-Soviet relations, the likelihood is for a period of suspended activity while a Carter administration takes shape. Moscow has been so cautious in recent months that it has even violated diplomatic protocol by withholding acceptance of the U.S. proposal of Malcolm Toon, currently ambassador in Israel, as the envoy here.

Some senior U.S. officials are known to feel that the Strategic Arms Limitation Talks that have been frozen throughout the peak U.S. election period might now move ahead if consent from Mr. Carter and his advisers on U.S. negotiating positions is forthcoming. While that obviously would be desirable, it seems a very long shot.

Instead the prospect is that the Kremlin will go on waiting for the transition in Washington to take place before making any meaningful moves, reserving judgment on Mr. Carter and wiping the slate clean of its criticism of his positions during the campaign.

Then, perhaps, the Soviet Union will put out feelers for a Brezhnev-Carter meeting somewhere, much like the Ford-Brezhnev encounter at Vladivostok several months after Mr. Ford succeeded Mr. Nixon. Moscow puts considerable stock in the value of personal contacts between superpower leaders. For the moment, there are none.

Small Military Parade

MOSCOW, Nov. 7 (AP).—The Soviet Union staged today one of the smallest of its annual military parades marking the anniversary of the Communist revolution. No new military equipment was presented.

"The Soviet Army and Navy are reliably guarding the cause of revolution, socialism and peace," Defense Minister Dmitri Ustinov announced to the marchers from his place with the rest of the Soviet leadership atop Lenin's mausoleum.

But the collection of armored personnel carriers, artillery pieces, surface-to-air and surface-to-surface missiles that rolled for six minutes through Red Square included no weapons that were not shown last year. For the second year, all tanks and other tracked vehicles were absent.

There was no official explanation for the toned-down nature of the parade.

Mr. Brezhnev, 69, led party and government dignitaries in the Lenin mausoleum's reviewing box just outside the Kremlin walls. Foreign observers included the ambassadors of most countries and defense attachés from foreign embassies.

Associated Press.

AT THE TOP—President Nikolai Podgorny and party leader Leonid Brezhnev wave to marchers from atop Lenin's Tomb, during Revolution Day Parade in Red Square.

Firewomen to Join Pompiers in France

PARIS, Nov. 7 (UPI).—French women now can become municipal firefighters, according to a government decree.

The decree, published today, will enable at least one woman, Françoise Mabille, to get a job. She successfully passed tests in 1973 but was not allowed to enter the *pompier* service because of a law forbidding women to do so.

Says Blast Killed Hundreds

Exiled Soviet Scientist Tells Of Nuclear, Rocket Accident

LONDON, Nov. 7 (UPI).—A dissident Soviet scientist revealed today what he said were details of a Soviet nuclear accident that killed hundreds of people and a moon-rocket explosion that wiped out the best brains in Soviet space technology.

Dr. Zhores Medvedev, who now lives in exile in London, said an explosion of a nuclear waste dump in 1958 caused hundreds of deaths and tens of thousands of cases of radiation sickness.

The area was so contaminated, he said, that it "is still considered dangerous and roads passing through it are closed."

Two years later, he said, a Soviet moon rocket blew up on its launching pad and "everyone in the area was killed. The disaster cost the best brains in Soviet space technology."

Western experts said there was little reason to doubt Dr. Medvedev's account, contained in an article on the conflict between scientists and politicians in the Soviet Union for the current issue of the magazine New Scientist.

In fact, one expert on Soviet military affairs said [illegible] been [illegible] "many [illegible] in Soviet nuclear [illegible] disasters."

"There have been at least [illegible] major accidents in the [illegible] field," said the expert, Prof. [illegible] Erickson of Edinburgh University.

"We know nuclear [illegible] and engineers have been [illegible] together, from the [illegible]," Prof. Erickson said. "We [illegible] know exactly how they died."

Dr. Medvedev's account of [illegible] 1960 Soviet moon-rocket [illegible] paralleled the one given [illegible] by Oleg Penkovsky, a [illegible] and double agent. The [illegible] occurred because Soviet scientists were trying to provide a [illegible] ganda triumph for [illegible] Khrushchev, then Communist party leader, Dr. Medvedev said.

Khrushchev wanted a [illegible] rocket launch to coincide with his arrival in New York for a full session of the UN General Assembly, Dr. Medvedev reported.

When the moon rocket failed to ignite in front of the [illegible] of Soviet space scientists, [illegible] rocket commander, Marshal Mitrofan Nedelin, overrode safety procedures to get the rocket launched in time. Scientists swarmed over the rocket to see why it did not fire.

Ignition Began to Work

"While this was taking place the ignition started to function," Dr. Medvedev wrote. "The rocket lifted briefly off its launching pad but was caught by the inspection ladders" and exploded, killing "everyone in the area." Marshal Nedelin was one of the dead.

The 1958 nuclear explosion came in atomic wastes buried near Blagoveshchensk in the [illegible] Mountains, he said.

Politicians ignored warnings from nuclear scientists that the waste was not safe, he said, because alternative disposal methods were "considered too expensive."

"Suddenly there was a huge explosion like that of a volcano," Dr. Medvedev wrote. "The buried material had overheated through nuclear reactions.

"The explosion threw radioactive dust and materials high up into the sky. Strong winds blew the radioactive clouds hundreds of miles away."

No evacuation was ordered until radiation sickness symptoms appeared, but by that time there were "tens of thousands" of cases of radiation sickness and "hundreds died," Dr. Medvedev said.

But the British Atomic Energy Authority chairman, Sir John Hill, today dismissed as pure science fiction Dr. Medvedev's claims that nuclear waste caused a disastrous explosion, Reuters reported.

Sir John told the Press Association, the domestic British news agency, that the allegations were "rubbish" and added, "I think this is a figment of the imagination."

Jews Living in Hungary Find A Secure Oasis in East Bloc

By Michael Getler

BUDAPEST (WP).—In the back rooms of a dilapidated tenement here, Rabbi Alexander Scheiber presides over the only rabbinical seminary left in all of Eastern Europe, once a thriving center of world Jewry.

The elderly rabbi has 15 students—12 Hungarians and 3 Russians—who study in the ramshackle suite of rooms just a few blocks from the slightly run-down 100-year-old Central Synagogue, the largest in the world.

Within the Communist bloc, such Jewish places of worship are fast becoming relics.

The fact that the Hungarian government allows this training school for rabbis to continue operating tends to confirm that this country's remaining Jewish population—nearly 100,000—is one of the few relatively secure pockets of Judaism in the region.

Ironically, the Hungarian government feels it is being discriminated against by a controversial U.S. trade law with portions drafted primarily to force the Soviet Union to allow freer emigration, especially for Jews.

Throughout Eastern Europe, Hungary is widely viewed as the most liberal state, and its Communist party chief of 20 years, Janos Kadar, is credited by both Hungarians and Western diplomats with consistently rejecting pressures to remove Jews from many of the high positions they hold within the government and in the country's cultural life.

Mr. Kadar's success with his own brand of liberalism while living under Moscow's domain also demands that he maintain strict foreign policy loyalty to the Kremlin. Thus, Mr. Kadar, like Moscow, rejects the terms of the Jackson-Vanik Trade Act of 1974 as an interference in internal affairs. Hungary, therefore, still does not have most-favored-nation trade status with the United States and the lower tariffs that go with such status.

Other Communist countries, such as Poland, which now has only a small Jewish minority, and where anti-Semitism is considered much more common, were granted most-favored-nation status long before the new law. Yugoslavia, Communist but independent of Moscow, also has it.

The only Communist country to accept the terms of the Jackson-Vanik law since it was passed is Romania, and the irony here, in the view of U.S. diplomats, is that Romania also has strong currents of anti-Semitism and was planning to let some Jews emigrate even before the law was passed.

"The law is an insult," said a Hungarian official. "Imagine Brezhnev telling Washington they must do such and such for the Negroes or they won't sign a certain agreement."

"What is better," another asks, "that you treat your Jewish population well and are forced to send them to Israel or that you don't treat them well and allow them to emigrate?"

Foreign diplomats in Eastern Europe and many non-Jewish intellectuals here and in neighboring countries all say there are strains of anti-Semitism throughout Central and Eastern Europe. In Hungary, one said, "it is more primitive than wicked and not as bad as elsewhere."

Hungary had almost a million Jews before World War II. About 90,000 of those that are left live in Budapest, probably the largest single community in the region.

Rabbi Scheiber is a cautious man. He wants to talk only about the seminary and not anti-Semitism. "All professions are open to us here," he said. "Anti-Semitism is forbidden by law. We cannot see into people's hearts, but there is no sign of it outside."

The emigration law is one of two religious matters that continue to indirectly irritate unofficial U.S.-Hungarian relations at a time when official relations between the two countries are improving.

In churches, as well as in the Foreign Ministry here, there is lingering bitterness over the unwillingness of the United States to return the crown jewels of St. Stephen, Hungary's patron saint.

Legend has it that these ancient relics—a crown, scepter, orb and robe—were given to King Stephen almost 1,000 years ago by the Pope in gratitude for the king's conversion of his country to Christianity. They fell into U.S. hands after World War II.

Rickover Seeks $130 Million for Another Minisub

WASHINGTON, Nov. 7 (WP).—Adm. Hyman Rickover is seeking $130 million to build another minisubmarine like the NR-1, which found the Navy's Phoenix missile on the ocean bottom.

His request, which could end up on the desk of one of Adm. Rickover's former nuclear submarine officers—President-elect Jimmy Carter—has already drawn fire from budget officials.

They are questioning whether it is worth spending $130 million on a second NR-1, which is designed to explore the ocean depths rather than fulfill any military function, when the Navy is already strapped for money to build fighting ships.

Navy backers of another NR-1—which at 136 feet is less than half the length of nuclear attack submarines now at sea—are arguing in the closed Pentagon budget meetings that a new minisubmarine would provide an opportunity to try out a stronger type of steel.

The NR-1 turned out to be the star of an otherwise embarrassing performance by the Navy to find and retrieve the missile and an F-14 Tomcat fighter that rolled off the aircraft carrier John F. Kennedy on Sept. 14 and sank in 1,960 feet of water about 75 miles northwest of Scapa Flow in the Orkney Islands.

Air Collision in Russia Reportedly Killed 90

MOSCOW, Nov. 7 (UPI).—At least 90 persons were killed in a collision between two Soviet airliners two months ago, according to reports reaching Moscow yesterday.

The unofficial reports were brought to the capital from the Ukrainian mining city of Donetsk, where many of the passengers aboard one of the airplanes were said to have lived. The reports, which have not been confirmed in the Soviet press, said the airliners collided near the southern city of Sochi, a holiday resort where one plane was headed.

Europe Liberals Near Accord on Parliament Vote

THE HAGUE, Nov. 7 (Reuters).—Leading officials of European liberal parties meeting here today took their first steps toward a common program for direct elections to the European Parliament in 1978, but failed to agree on some other issues.

Liberal leaders from eight of the nine Common Market countries today ended the first Congress of the Federation of EEC Liberal and Democratic Parties since it was established in March.

The federation's chairman, Luxembourg Premier Gaston Thorn, said that the 250 or so delegates were between 80 and 90 per cent agreed on the major points of a combined platform. He added that a definitive program would be ready well before the elections.

Differences of opinion concerned the powers of a European Parliament, the regional policy of the EEC and some aspects of foreign and defense policy, he said.

The federation comprises liberal parties in Belgium, France, Britain, Denmark, Italy, Luxembourg, West Germany and the Netherlands.

DEATH NOTICE

Mrs. BEYEN-SALLY (born BRUNET) Our so beloved wife and mother on October 27, 1976, memorial services were held at Laren on November 1, 1976.

H.R. BEYEN, STEENBERGEN 6, LAREN (N.H.), THE NETHERLANDS.

Trudeau Apology In Japan Draws Protest in Canada

OTTAWA, Nov. 7 (NYT).—A wave of protest has been set off in Canada by the apology Prime Minister Pierre Elliott Trudeau made last month in Japan for the wartime treatment of Canadian residents of Japanese ancestry.

In letters to newspapers, Canadians of Japanese ancestry who were interned early in the war and lost all their property as a result have contended that Mr. Trudeau's apology should be to them, not to the Japanese in Japan.

Several letter writers also declared that an apology by Japan for wartime atrocities against Allied soldiers would have been an appropriate exchange for Mr. Trudeau's gesture, made at an official dinner in Tokyo on Oct. 25.

The controversy has also revived bitter memories among victims of racial intolerance here, not only during the war but also in earlier times when immigrants from Asia encountered widespread discrimination, especially in British Columbia, where the Asians were most numerous.

Mr. Trudeau apologized for "the decision taken by the federal government in the heat and fright of World War II to evacuate Japanese-Canadians inland from coastal communities and to deprive many of their civil rights."

Romania Moves On Job Shirkers

VIENNA, Nov. 7 (Reuters).—Work-shy Romanians have been officially labeled anti-social, and the government has said persistently unemployed persons will be drafted to do compulsory labor.

The Romanian parliament voted a new law that decrees that all able-bodied persons, other than students and housewives "must carry out work that is useful for society."

The law applies to everyone between the ages of 18 and retirement, the Agerpres news agency said. Persons classified as "parasites" face up to a year of compulsory labor, but first they will be urged to take jobs voluntarily.

UPI

Patrick Dennis

...trick Dennis, Dies; Author 'Auntie Mame'

...W YORK, Nov. 7 (NYT).—...k Dennis, 55, the writer who ...he jackpot with his best-...g novel "Auntie Mame," the ...s-aged terror of Beekman ...died yesterday of cancer ...s home here.

...Dennis was promotion man-...for Foreign Affairs magazine ..."Auntie Mame" was pub-...l by Vanguard Press in 1955. ...nore than two years the book ...he best-seller lists, and sold ...two million copies in the ...al, translations and paper-...editions, making the writer ...lionaire.

...er ghost-writing four books, ...blished his first novel, "Oh ...s Wonderful Wedding" in ..."Auntie Mame" was written ...ollowing year, and Mr. Den-...wife, Louise, recalled yester-...that it was rejected by 10 ...shers before its acceptance ...anguard. Mr. Dennis pre-...d that "Auntie Mame" was ...l aunt, but his wife said that ...character was almost "en-...fictional." It became a ...film and musical.

...e writer's real name was ...rd Everett Tanner 3d.

...m 1951 to 1971, he wrote 12 ...s under the Patrick Dennis ...and four novels under a ...nia Rowans pseudonym. For ..., weeks in 1956 he had three ...ls on the New York Times ...seller list at one time. That ...d has not been broken.

...n Quake Kills 16

...EHRAN, Nov. 7 (UPI).—The ...iest earthquake in Iran in ... years rocked northeastern ...rassan province today, caus-...undetermined damage and ...east 16 deaths, government ...ials said.

Joined by Leftists, Students

Thai Insurgents Stepping Up Activity Since Military Coup

By Lewis M. Simons

NA KAE, Thailand, Nov. 7 (WP).—Here in the center of Thailand's Communist insurgency and throughout the troubled northeast of the country, guerrillas have been stepping up the intensity and scale of their attacks on government outposts since military leaders seized power in Bangkok a month ago.

Government and military officials in several provincial towns are convinced that the increased activity is being carried out in direct response to the toppling of Thailand's short-lived democratic government.

Most officials in the impoverished northeast, which is bordered by the Communist-governed states of Laos and Cambodia, anticipate that the insurgency will become steadily more difficult to cope with as dissident students and other leftists, who have joined the guerrillas in recent weeks, become trained jungle fighters.

They expect that Laos and its major ally, Vietnam, which began upgrading the quality of their support to the Thai insurgency more than a year ago, will increase their aid further now that they are faced with an anti-Communist regime here.

Major Proportions

Although most local officials seem pleased by the Oct. 6 coup because it has freed them to take strong action against the insurgents and their supporters, there is general agreement that the struggle will take on major proportions within six months.

"In five or six months, those students who have the nerve to remain in the jungle will be trained combat troops and that's when we'll really have to worry," said Pisal Moolsartsathorn, the governor of Nakhon Phanom Province on the Mekong River border with Laos.

Mr. Pisal, like civilian and military officials throughout the northeast, cited intelligence reports of an undetermined number of students linking up with insurgent units and at least 200 others crossing the Mekong into Laos.

Authorities have monitored Communist radio broadcasts advising students how to survive in the jungles, what sort of clothes to wear, how to make contact with guerrilla groups and, if necessary, "to be prepared to sacrifice your lives" if captured by police or military units.

There are thought to be some armed guerrillas in the northeast, bolstered by active Communist supporters raising the overall strength to 10,000.

Several regional officials expressed concern that even if the majority of students did not stay in the jungle, those who did could add a new level of intelligence and leadership ability to the insurgents, some of whom have been at war with the government for more than a decade.

Last week, in an extraordinary broadcast on the clandestine Voice of the People of Thailand radio, a group of six top former leaders of the now illegal National Student Council of Thailand declared the beginning of a "people's war" against the military-backed regime in Bangkok.

"We have unequivocally drawn the conclusion that because the enemy has guns, we also must have guns. Our people must also have their revolutionary armed forces to overthrow the reactionary administrative power," the students said.

The broadcast called on farmers and workers to cooperate in a basic Maoist program of "using the rural areas to encircle and finally seize the cities."

At the moment, the insurgency is limited to a number of fairly well defined rural pockets in the northeast.

Dominated by Phupan Noi, a heavily forested hill constantly patrolled by troops of the Thai Army's 3d Regimental Combat Team, the area is one of those parts of the country described recently by Premier Thanin Kraivichien as "Communist-infested."

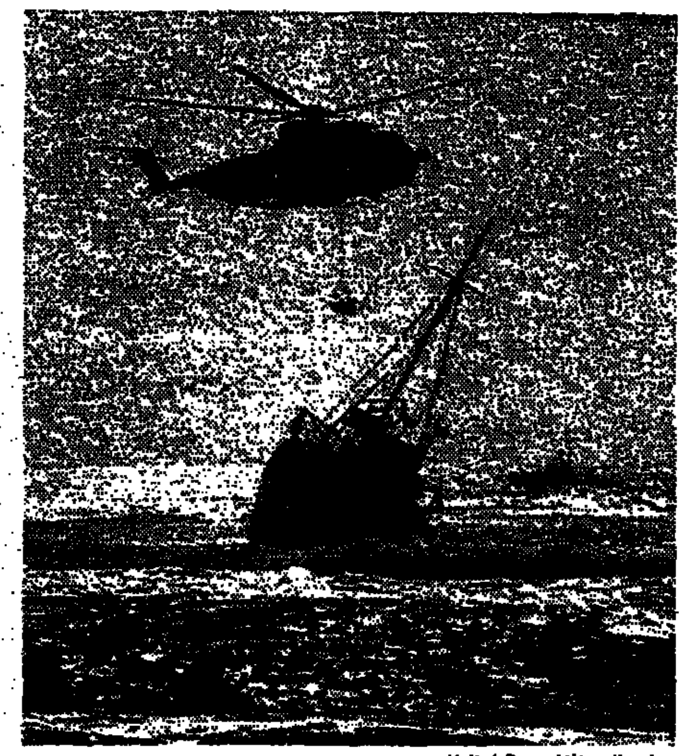
The few roads crossing Na Kae are intercepted every mile or so by barricades manned by heavily armed police. Local police stations, favorite targets of the insurgents, are ringed by sandbags.

The thrust of the government's efforts, which began even before the military take-over, is to locate what authorities term "village hard cores," that is, those villagers who supply guerrillas with information, food and medical supplies, and to "re-educate" them.

In the four months he has been district chief in Na Kae, Virat Rasmites said that he has stressed "re-education and played down violence." Mr. Virat saw no irony in the government employing the same "re-education" technique as the new Communist regimes in the neighboring Indochinese states.

Bangkok Alert Eased

BANGKOK, Nov. 7 (UPI).—Bangkok's military commanders today reduced the city's full-scale military alert. Troops dismantled the last of the street bunkers and generally moved off the streets.



United Press International.

RESCUE—A U.S. Coast Guard helicopter lifts one of six crewmen from grounded fishing boat off Nantucket Island. Heavy surf kept other craft away.

Delayed U.S. Swine Flu Program Is Falling Far Short of Its Target

By Harold M. Schmeck Jr.

WASHINGTON, Nov. 7 (NYT).—One-third of the way through its planned time period, the national swine flu program has vaccinated less than one-tenth of the people it was intended to reach.

The early performance has raised serious doubts among some experts that the delayed effort can achieve its goal of protecting most adult Americans before the onset of the 1976-77 flu season.

In New York City, for example, the head of the program said the turnout has been poor.

"As it's going now," Dr. Pascal Imperato, first deputy health commissioner, said yesterday, "it will probably reach somewhere between 15 and 20 per cent of the target population."

In California, Dr. James Chin said he had hoped the flu vaccine program would reach about half of the adult population. As things are going now, he said, "if we get 30 to 40 per cent we'll be lucky." Dr. Chin is chief of the state Health Department's Infectious Disease Section.

After delays that put the program behind schedule by at least six weeks, the nationwide immunization program began Oct. 1. But vaccine shortages delayed the program in many communities by up to three more weeks.

The federal government's Center for Disease Control in Atlanta, which is coordinating the national program, has reported that 9,613,029 persons were vaccinated last month. The CDC estimates that this is slightly more than 7 per cent of the "target population," which consists of almost all U.S. adults and "high risk" persons under 18.

The national figures show that almost half of the total vaccinations during October were done during the last week of the month, an indication that the program is gathering momentum. Nevertheless, with more than 120 million adults still unvaccinated, the effort would have to speed up to more than 2 million inoculations a day, and keep that pace, to get the job done by the end of the year.

Swine flu has not been detected anywhere in the world since an outbreak early last year at Fort Dix, N.J. Because of this, many public health officers are becoming increasingly doubtful that it will reappear this winter.

Liberal Launches Publication Attacking Echeverria

Ousted Mexican Editor Defies Regime

MEXICO CITY, Nov. 7 (NYT).—Despite strong pressure from the government not to publish, the liberal editor and reporters who four months ago were ousted from the newspaper Excelsior issued a new political weekly yesterday that is highly critical of outgoing President Luis Echeverria.

In its first issue, the magazine, Proceso, makes a harsh analysis of the performance of Mr. Echeverria, who leaves office next month, and details the role of the government in ousting Julio Scherer Garcia from the editorship of Excelsior on July 8.

Last week, Mr. Echeverria again insisted that the government played no part in promoting the rebellion of conservative members of the Excelsior cooperative that led to Mr. Scherer's dismissal and the walkout of over 100 of his supporters.

Since then, however, Excelsior has abandoned the independent and left-leaning editorial policy that was the trademark of Mr. Scherer's leadership. And his determination to publish an independent political weekly before the end of the Echeverria administration has once again brought him into conflict with the government.

Refused Money

According to his close aides, he was first offered a large sum of money by government officials in return for a promise to treat Mr. Echeverria "cordially" in his opening issues. When this offer was refused, the aides said, senior government officials then approached Mr. Scherer and warned him not to begin the magazine.

In addition, the district attorney general's office suddenly decided to investigate a charge made three months ago by Excelsior's new editors that Mr. Scherer embezzled $650,000 from the newspaper.

Finally, the state-owned paper-importing monopoly, Pipsa, refused to sell newsprint to Proceso, which in turn was forced to borrow paper from friendly newspapers or to buy it at an inflated cost on the black market.

Huge Deficit Denied

MEXICO CITY, Nov. 7 (UPI).—President Echeverria yesterday denied charges his six-year administration, which ends Nov. 30, will leave behind a record $11-billion public deficit.

Commenting on a report Friday by the Mexican Institute of Financial Executives, Mr. Echeverria said, "The statements are totally wrong. There has been high investment in oil, electrical, steel and fertilizer industries, made to improve the nation's economy."

Saudi Troops Set To Leave Jordan

AMMAN, Nov. 7 (UPI).—Some 7,000 Saudi Arabian troops marched in a farewell parade in southern Jordan today before pulling out of the area, where they had been stationed since the 1967 Arab-Israeli war.

Officials said the troops would leave for Saudi Arabia tomorrow for training with new weaponry. They did not say whether the troops would return to Jordan.

King Hussein and Prince Sultan Ibn Abdul Aziz, Saudi Arabia's air and defense minister, attended the farewell ceremony near Kerak, about 150 miles south of the capital. A Saudi contingent stationed on Syria's Golan Heights frontier returned home last month.

INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
Page 6—Monday, November 8, 1976

View From St. Simons Island

The President-elect is resting after his long and successful campaign, surrounded by the peace and quiet of St. Simons Island, off Georgia, and by stacks of briefing papers that contain anything but peace and quiet. For Jimmy Carter is not only making the transition from private citizen to President, but from the campaign to the power it won and the responsibilities that power entails.

Mr. Carter, like nearly all candidates, had a tendency in public to reduce problems to phrases. Now he must reconcile his opposition to inflation with his opposition to unemployment and try to decrease the latter without increasing the former. He spoke of cultivating friends of the United States, rather than its potential enemies; of reducing the dangers of nuclear proliferation; of expressing moral views without interfering in the internal affairs of other states. And as he culls through the papers his staff has prepared, it is to be hoped that he also gets full daily reports on what is happening overseas.

This may be seen in many areas today. Greece and Turkey are both allies of the United States; both may be considered friends, certainly in the diplomatic sense. So what will Washington's stand be on the Aegean? And which of the friends of the United States (both have been highly critical of U.S. policy for some time) will be most offended by such a stand?

Then there is South Korea, where the United States maintains a protective garrison and which fought hard on the U.S. side in two wars. Whatever President Carter might think of President Park, the South Korean relationship has long been close. Now there is the question that Mr. Carter raised about reducing U.S. forces in South Korea, as well as the other question—of South Korean bribery of U.S. officials.

It could be argued that these nations are not as close friends of the United States as, say, its European allies or Israel. But the Middle East question cannot be resolved merely by goodwill to Israel (especially while Lebanon is still in turmoil, and Israeli vessels have engaged Palestinian craft off that country's coasts).

Mr. Carter, in the warm sunshine of St. Simons, must disentangle some of his campaign concepts and take another look at what international friendship means and the complications it can breed in applying moral values to a world which has many conflicting systems of morality. There is no reason to doubt that he will face up to his dilemmas—many new presidents have done the same. But the United States, and the world, are waiting for clues to his choices. Much depends on what the President-elect thinks, and decides, in this time of transition.

Oil Prices, Again

The oil-exporting nations' meeting next month is being preceded, as usual, by sharp waves of international anxiety. The issue at that meeting will not be whether to raise prices but how much. Higher oil costs come at a bad time for the industrial countries, which are OPEC's largest customers. Their unemployment is already high, and their production is not rising as strongly as their governments had expected. A further increase in oil deficits has the effect of a tax—it tends to slow down the economies on which it is imposed. We have been through this oil price sequence before. Now we have arrived at the stage of the cycle at which people rush about asking each other what can be done to restrain OPEC's appetite.

There is not much that anyone can do in the few weeks before OPEC meets, because the United States has done so little in the three years since the revolution in oil prices and the embargo.

* * *

In 1973, this country imported 36 per cent of its oil. Over the next two years oil consumption dropped in the United States and around the world, because of an industrial recession that the jolting increases in oil prices had helped to cause. But now consumption is rising again quite rapidly, and this year the United States will import 42 per cent of the oil that it uses. Next year, the Federal Energy Administration estimates, it will be 46 per cent.

But that's only the beginning. In 1973, our largest supplier of foreign oil was Canada, and Canada is now cutting exports severely. If you compare our imports for the first half of this year with the 1973 level, you will find that the total volume is up only by a modest 8 per cent. But the sources of those imports have shifted drastically. Because Canadian shipments are down, OPEC shipments are up 28 per cent. Shipments from the Arab OPEC countries are up a walloping 85 per cent. It has most rapidly increased its dependence on precisely those governments that have already demonstrated their determination to use their oil to pursue their political interests.

When the oil revolution was followed by the worldwide recession of 1973-75, OPEC grew apprehensive that it might have overplayed its strength and permanently damaged its market. As industrial production fell from Japan to Europe to the United States, demand for oil fell with it. OPEC decided, just over a year ago, to stand pat for a while; it announced a nine-month freeze on prices. When the freeze expired last June, the future demand for oil was still unclear and the cartel extended present prices for six more months. That six months expire at the December meeting.

And what has happened to world demand in the meantime? It is rising in nearly all of the rich countries, but it is rising most rapidly in the United States. That is why OPEC is now preparing to raise prices again. For all of their talk about conservation, Americans are once more using as much oil as they did in 1973 and their demand is rising steeply enough to keep markets satisfactorily tight—from a seller's point of view—throughout the world.

But that pattern may not hold up indefinitely. While the American tradition in using resources has been grossly wasteful in the past, it is possible to hope that things are changing. The oil revolution genuinely took this country by surprise, at a time when it was preoccupied first with an unprecedented political scandal and then with a long and closely fought presidential election. Now another President is about to take office, and Jimmy Carter has made it clear that he has energy policy very much on his mind.

The choice for Americans is an unpleasant but simple one. Either we can pay higher taxes here, to ourselves, on oil products—including the most sacred one, gasoline—or we can pay higher taxes to OPEC. The only effective answer to OPEC requires a slow but steady rise in American gasoline and oil taxes. The sooner we begin, the better.

THE WASHINGTON POST.

Impasse on Rhodesia

Prospects were never very favorable for the Geneva conference on Rhodesia's future, but now the negotiations are threatened with the possibility of complete collapse. The end of this effort to negotiate a peaceful transition to majority rule for a country where blacks outnumber whites 24 to 1 would please only the extremists in both camps who are prepared to resolve the issue by force, even at the risk of a racial war whose repercussions would be felt far beyond the southern African subcontinent.

The delegations at Geneva had already deadlocked on the first specific item taken up: the fixing of a date for Rhodesia's legal independence under majority rule. Then the unfavorable negotiating climate was poisoned by news that Rhodesia's white government had sent its troops deep into Mozambique, killed hundreds of black Rhodesian guerrillas and destroyed seven of their bases.

Rhodesian Prime Minister Ian Smith has gone home to Salisbury in a huff, calling the black delegates "stupid," reviving a threat to bypass them and negotiate a form of "majority rule" with the docile and discredited tribal chiefs on his government's payroll. On the black side there are increasing doubts that any of the delegates have enough influence with the black guerrillas to end the attacks on Rhodesia from Mozambique even if a Geneva settlement were to be concluded.

Some guerrilla leaders unquestionably would prefer to take over Zimbabwe—the African name for Rhodesia—by military conquest rather than negotiation. Die-hard Rhodesian whites believe that if they can hold out long enough, the United States and its allies will be forced for geopolitical reasons to come to their assistance and counter Soviet and Cuban involvement on the side of the blacks. To assess the views of the two extremes is to appreciate the hazards involved in the bold Kissinger initiative that brought about the Geneva negotiations.

Despite official disclaimers, there is little doubt that the United States hopes Britain will agree to play a much greater role in Rhodesia during the transition period than Prime Minister Callaghan is ready to contemplate. But it was on American initiative that the reluctant British agreed to call the Geneva conference. It may require a further American effort merely to salvage it.

THE NEW YORK TIMES.

In the International Edition

Seventy-Five Years Ago

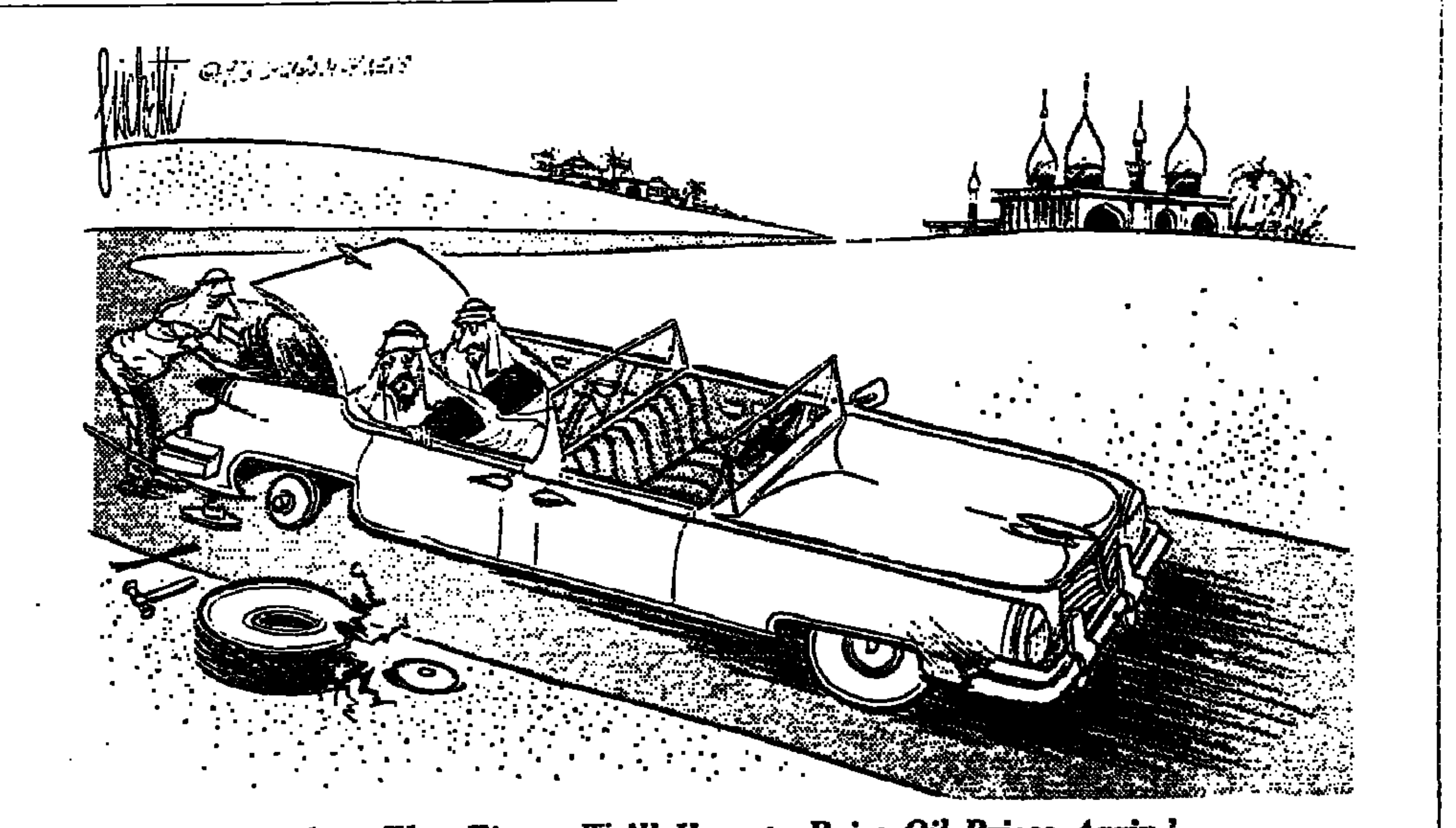
November 8, 1901

PARIS.—Yesterday the French capital, and indeed all of France, resembled London in no uncertain terms, as a heavy, thick fog settled over the country from Calais to Menton. It was almost impossible to see across the Champs Elysees in the afternoon. In the provinces it was just as bad, with railway, river, tramway and omnibus lines all very seriously disorganized.

Fifty Years Ago

November 8, 1926

NEW YORK.—A new "talking film" is expected to make its appearance on the market shortly, having been perfected after experiments along a line somewhat different from that used in the Vitaphone according to sources in Wall Street. Officials of RCA admitted that they had been working on such a development and said that the General Electric Company and Fox Films had expressed interest.



'Look at That Tire—We'll Have to Raise Oil Prices Again.'

Greece and Turkey: Cutting the Gordian Knot

By C. L. Sulzberger

GORDION, Turkey.—Legend has it that when Alexander the Great led his army up to the walls of this famous ancient capital of Phrygia in 333 B.C. on his march toward India, he was told he would be allowed free entry if he could untie the knot bound together by its first king, Gordios, which had hitherto proved impossible to unravel. The Greek conqueror simply drew his sword, sliced it open, and was permitted to march unhampered through the formidable fortifications.

The symbol of the Gordian Knot—an insoluble complexity which can, nevertheless, be opened by unexpected means—is one of the two tales of Phrygia bequeathed to eternity; the other being the fabulous wealth of Midas, one of its renowned rulers. And the neat, hitherto untried approach of Alexander is required to solve a contemporary regional problem that has until now perplexed the Western world's best diplomatic minds. This is to settle the quarrel between the heirs of Alexander and Gordios, modern Greece and Turkey.

A Formula

It is apparent to both governments involved in this dangerous dispute, which threatens to weaken each of them and NATO, that a formula must be found to bring peace before the continuing game of "chicken" between them produces the disastrous alternative of war. And now that the American elections are over, removing a temptation to play Washington's great lobby game in hopes of a better deal, both parties have gotten down to serious business.

Bilateral negotiations concerning an agreed definition of how to handle rival claims on the Aegean Sea's continental shelf, which both hope to prospect for oil, are now taking place at Berne. Similar bilateral talks on defining rival claims of national air space are taking place in Paris. If these move in the direction of accord between the technicians who started meeting on U.S. election day, the two foreign ministers will get together soon to seek formal understanding.

This is a sensible way of cutting the new knot of Gordion. Each side recognizes that both will be penalized if they can't settle this argument. Neither could benefit from war, both can profit from peace. They will mutually gain from pooling subsurface petroleum in the Aegean and from reopening the civilian air traffic between Greece and Turkey that has been blocked for two years.

Moreover, the real atmosphere as between governments is a good deal more level-headed than one might assume from the inflamed atmosphere as between mass public opinions excited by inflammatory newspapers. Foreign Minister Caglayangil of Turkey told me that Greek Prime Minister Caramanlis "deserves full credit for two major decisions" he took during times of stress.

To the UN

He referred to Caramanlis's refusal to contemplate war after this country's second military landing in Cyprus in 1974 and his similar refusal to fire at the Turkish oil exploration ship Sismik I last summer when Greek jingoes were demanding such action. "He took it to UN instead," said Caglayangil. "No Turkish leader would have had enough prestige to take two such decisions under such circumstances," he acknowledged.

This doesn't mean that all of a sudden the atmosphere is easing. The talks in Berne and Paris are complex and political repercussions are potentially violent. Caramanlis has a strong parliamentary majority but he is being hammered by the opposition. Turkey has a curious coalition government of minority parties which share no common ideology and it is even harder for sensible men like Caglayangil and Prime Minister Demirel to swing a sensible deal.

Nevertheless, the present approach is saner than anything in the past two years. The problems being tackled in Berne and Paris are of primary importance to Greece and Turkey, to their relations with the USA, and to NATO. Cyprus is another matter. It is more complex and more difficult to settle because it involves a third government—that of President Makarios, a neutral, not in NATO—and also involves Britain, a treaty guarantor of Cyprus.

However, if the atmosphere can be eased by working out an agreed formula for the continental shelf and air space, enabling partnership in crucial economic areas, tension is bound to lessen. This should in turn reduce pressures on the U.S. Congress to frustrate arms and bases accords already negotiated and the air will be cleared for a new approach to Cyprus. Cutting halfway through the Gordian Knot is better than leaving the whole thing in a hopeless tangle.

The Memories of Transition

By James Reston

WASHINGTON.—The pause between one administration and another brings back strong memories for those of us who have been around this beautiful city for a while: The shock of Roosevelt's death, the transition from Truman to Eisenhower after 20 years of Democratic power, the theatrical and triumphant arrival of the young Kennedy followed by his murder and the melancholy succession of Lyndon Johnson, and finally the comeback, victory and disgrace of Richard Nixon and Gerald Ford's announcement that "our long national nightmare is over."

This time the transition is dominated by the astonishing personal achievement of Gov. Carter and his family, by the flexibility of a political and constitutional system that has seen us through the resignation of a President and the stewardship of both an unelected President and an unelected Vice-President. Finally by the decision of a narrow majority to accept, after all these years since Appomattox, a President from the aggrieved and rejected South.

If

The changing of the guard in Washington is always attended by the poignant might-have-beens of life. ("If" is the shortest and saddest word in the dictionary.) What if it had rained on Election Tuesday, or Ford had picked a different running mate, or refused to debate Carter on national television?

The result was so close, particularly in the big industrial Northern states, that many individuals and organizations are now claiming that their political exertions made all the difference between victory and defeat: the labor unions, the League of Women Voters, Mayor Beame of New York, even Mayor Rizzo of Philadelphia, of all people, rather than Mayor Daley of Chicago, all of whom had a decisive role. You can make your choice. Mine would be Lyndon Johnson and the Voting Rights Act of 1965, which finally enfranchised the Southern Negroes. This election was won primarily by the black voters of the South, who believed in Carter and were finally given an equal chance to vote by the political skill and timing of Johnson.

Again the element of accident. After the assassination of President Kennedy and his brother Robert, Johnson moved quickly to push through the Civil Rights Act of 1964. I saw him fairly often in those days, and he always insisted, at interminable length, that specific questions like busing and school integration were complicated, highly controversial, and secondary.

He wouldn't live long enough to hear out all the arguments, he said. The Northern, Eastern press was against him, he said, and even wanted to make him look like a "hick," but "voting is everything," he insisted. He had to choose, he said. Give the Negroes the vote in the South, and eventually they would work out their problems, but still he held back in 1965 until the battle in the streets of Selma, Ala., led by Martin Luther King jr., and then he acted very quickly and went before a joint session of the Congress in prime evening television time to present the critical Voting Rights Act.

It was one of the most memorable speeches of our time. As Doris Kearns described it, Johnson at his best—"homely, compassionate, audacious, and noble."

"I speak tonight," Johnson began, "for the dignity of man and the destiny of democracy . . . at times history and fate meet at a single time and in a single place to shape a turning point in man's unending search for freedom.

"So it was a century ago at Appomattox. So it was," he said, "last week in Alabama.

"There is no constitutional issue here. The command of the Constitution is plain. There is no moral issue. It is wrong to deny any of your fellow Americans the right to vote . . . this time, on this issue, there must be no delay, and no compromise with our purpose. . ."

Here Johnson stopped and identified himself with the three words from the old Baptist hymn and the battle cry of the Negro revolt: "We shall overcome." There seldom have been more dramatic moments in the Congress of the United States than this.

Johnson not only won the support in the Congress for his Voting Rights bill, but signed it in the President's room adjoining the Senate chamber where Abraham Lincoln had signed the Emancipation Proclamation in 1863.

The effect of that struggle was clearly seen in the decisive outpouring of black votes for Gov. Carter in every Southern state except Virginia. Without the electoral votes in the Old Confederacy, he could not have won the presidency. Without the Voting Rights Act of 1965, there would have been no effective, decisive Negro vote.

Transition

And one other thing: Without the intelligence and patient love of Ladybird Johnson, always appealing under stress to the better side of Lyndon Johnson's political nature, everything might have been quite different, then and now.

So the transition period raises questions beyond the statistics of the states and the electoral votes. Odd things happen, most of them sensitively human. They won't come out of our computers. The accidents and imponderables interfere. Watching it all for a while, I have to pay attention to the element of luck. Ike was a lucky man. Adlai Stevenson was an unlucky man. There is the tragedy of fate on the Kennedys, and the tragedy of success, which he couldn't manage, on Nixon.

And Carter? He is clearly a determined man, intelligent, well-rooted in the history of the South, well-favored in a loyal family, and beyond everything else, probably pretty lucky.

Letters

A Breath of the Past

Apropos of Alfred Friendly's very funny parody of my food articles (IHT, Nov. 2), on the subject of garlic, I will spot him a double-barreled anecdote (more or less authentic) in case he should desire to enlarge upon this topic later.

The Latin poet Horace, who must be listed as one of the founding members of the commandery of anti-garlickers (*incredulus odi*), is reported to have developed his dislike for this vegetable as a result of the rivalry between Maecenas and himself for the same young lady. Knowing that Horace had a date with her one night, and knowing also that she detested garlic, Maecenas invited Horace to dinner just before his rendezvous and served him a repast reeking with garlic. This ended Horace's affair and initiated his hatred for garlic. A less romantic version attributes Horace's dislike of garlic to the fact that on his arrival in Rome he ate heavily of sheep's head strongly flavored with garlic, became ill, and couldn't stomach it thereafter.

About the same thing happened to me when I first arrived in Paris, but in my case it wasn't garlic, it was *pastis*.

WAVERLEY ROOT.

Paris.

'Nuclear OPEC'

I would like to set the record straight on the inaccuracies in C.L. Sulzberger's article, "A Leak in the 'Nuclear OPEC'" (IHT, Oct. 30-31).

Mr. Sulzberger has attributed to Pakistan the intention of "accumulating plutonium and secretly manufacturing nuclear weapons," and in support of this conjecture, he has stated that the Franco-Pakistan agreement does not carry any clauses which safeguard "copied" reprocessing plants, and that Pakistan had spurned all efforts to plug this loophole.

These assumptions, on which Mr. Sulzberger has based his article, are totally unfounded. In fact, copied reprocessing plants, and even parts of such a plant, are specifically listed among other items in Article II of the relevant Safeguards Agreement signed by France and Pakistan with the International Atomic Energy Agency, which sets out the undertakings of the government of Pakistan, and which states that these items shall not be used for the manufacture of "any nuclear weapon or to further any other military purpose or for the manufacture of any other nuclear explosive device." Article III of the same agreement further sets out the undertaking of the international agency to apply its safeguards system to all listed items, including copied plants.

The government of Pakistan has repeatedly given categorical assurances about the peaceful intent of its nuclear energy program, and has taken a consistent stand on this issue in international forums. Nor have these pledges been merely verbal, as iron-clad safeguards have been accepted both in our nuclear agreements with France as well as with the IAEA, some of which even go beyond the normal provisions of the IAEA safeguards system: These facts speak for themselves.

NAWAB QIZILBASH,
Ambassador, Pakistan Embassy,
Paris.

Treasury: Who Will Carter Pick

By Evans and Novak

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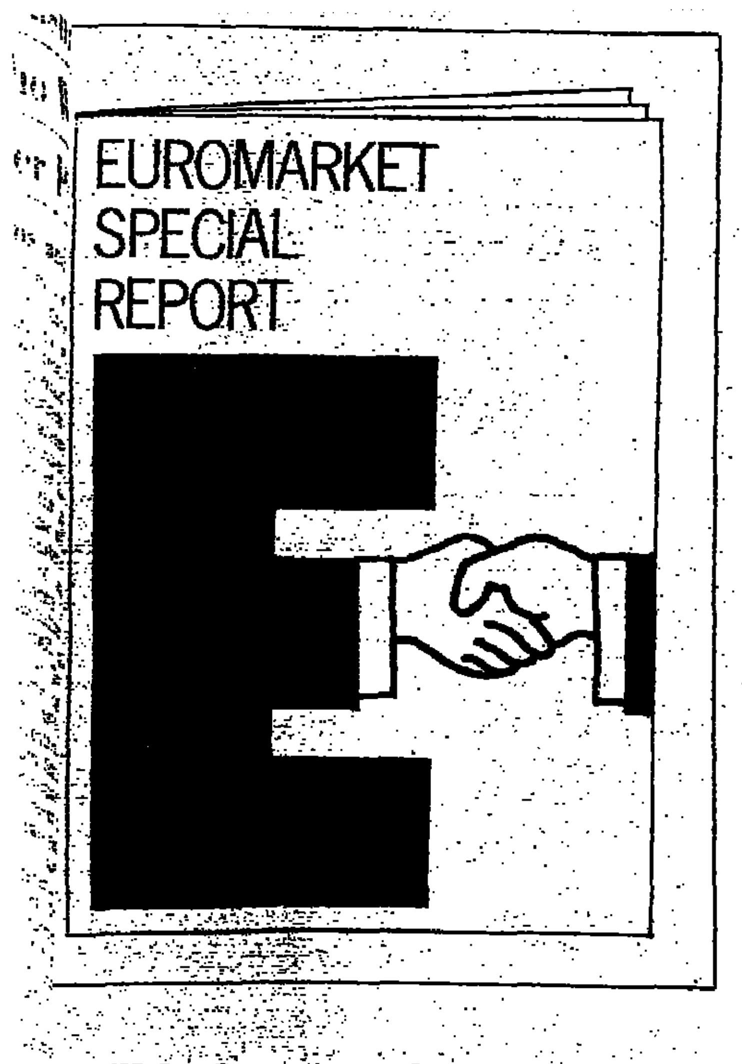


THE EUROMARKET

A Multibillion-Dollar Pool of Funds Outside Control of Any Authority

By Carl Gewirtz

PARIS (IHT).—International outlaw or world bank?

The Euromarket is many things to different people. To the "man on the street," it is mostly incomprehensible, although the uninitiated in financial affairs would not hesitate to say that it killed the Bretton Woods system of fixed exchange rates.

Years of newspaper headlines saying "Euromarket Controls Urged" have no doubt reinforced the market's public image as an evil force, especially since the news stories seldom failed to mention that it is outside the control of any official monetary authority.

The recurrent calls for controls bear witness to the fact that even the specialists hold conflicting views of this market. Monetarists believe that the market's ability to create credit outside the supervision and regulation of financial authorities has been a major contributor to the worldwide surge in inflation while other academics maintain there is insufficient evidence to back up that assertion.

Instability

To those who complain that the market has been a major source of international instability—as it is the base from which massive speculative raids have been made on foreign exchange markets—others retort that the speculation would have occurred even if the Euromarket had not existed.

Of late, however, even the complaints of diehard critics have been stilled as the market has become a major force in recycling the surpluses of the oil-producing states to the importers, enabling the latter to run deficits in their international accounts and giving them the time to spread the necessary adjustment to meet the higher oil payments over years rather than months.

What, then, is the Euromarket? Is it a curse or a blessing?

In fact, it is neither. In the view of most economists, it is the thermometer of the international monetary system—with heavy flows of capital indicating sickness in one part of that system, but definitely not the cause of that upset.

The Extent

At latest count, it is a pool of funds estimated to total more than $470 billion in its widest definition—that is, including all the "offshore" centers and international bank lending out of the United States, Canada and Japan. At present, this is the fastest-growing sector of the international market due to the stepped up rate of lending being done directly out of the United States.

By the so-called narrow definition—measuring the external liabilities of banks in nine European countries (the EEC, minus Ireland and Denmark, and Switzerland and Sweden)—it is a $270-billion pool of funds growing at an annual rate of about $15 billion a year. After eliminating the double counting arising from banks borrowing from and lending to each other, the Euromarket's net size is estimated at around $215 billion.

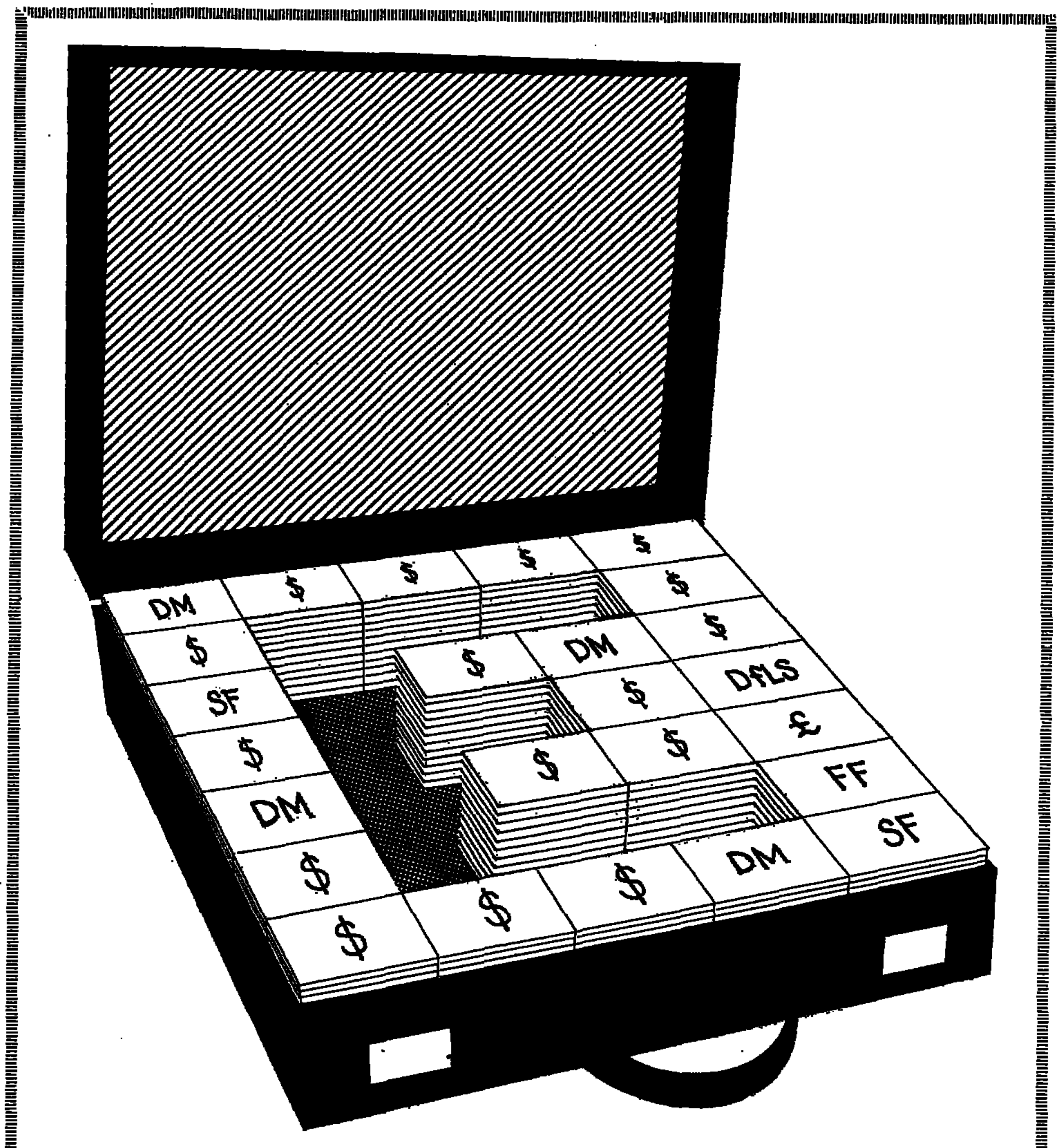
Overall, the Euromarket is the second largest marketplace in the world, after the United States, and is ahead of its time in that the world is treated as one interdependent unit. Whereas domestic markets lack international horizons, the Euromarket deals in an array of currencies, with lenders and borrowers worldwide.

The bulk of the funds are Eurodollars, which make up close to 80 per cent of the gross market. Eurodeutsche marks are the second largest component, followed by Swiss and French francs, guilders and pounds sterling. These moneys are on deposit with banks—so-called Eurobanks—outside the country of origin. In fact, the prefix "Euro" is a misnomer, dating from the market's beginning, when the banks accepting such foreign-currency deposits were located in Europe.

Today, the market is not only in Western Europe but extends east to Bahrain, Singapore and Hong Kong and west to the Bahamas, the Netherlands Antilles and Panama. Its "capital" is London because in the early days only the City had the international expertise to cope with the business and the necessary supply of the "tools of the trade"—the telex machine and telephone, by which all business is transacted.

The market got started in the 1950s, the product of the cold war, as East European governments decided to transfer their dollar accounts from New York to Europe out of fear that the deteriorating political relations with Washington could result in their accounts being blocked.

Britain's restrictions in 1957, severely limiting the use of sterling to finance trade between countries outside the sterling area, was all that was needed to enthrone the dollar as the key currency in international trade. And by 1958, when the major European countries liberalized their foreign exchange controls to allow easy cross-border transactions, the boom was on.



From a mere $500 million in 1959, the Euromarket has grown to 540 times that size in less than two decades. And, in the wake of this growth, international banking was revolutionized, becoming the most dynamic sector of the banking market. The most telling proof of this is the profits that banks earn from their international operations—70 per cent of Citicorp's total 1975 earnings, 64 per cent for Chase Manhattan, 60 per cent for Morgan Guaranty Trust, almost 40 per cent for Deutsche Bank.

The phenomenal expansion of the Euromarket was the product of the continuing and in some years massive deficits in the U.S. balance of payments—deficits which spread dollars to every corner of the globe.

The impetus to keeping these dollars outside the United States was the system of controls Washington began imposing in 1964 to halt the outflow of dollars—controls which fostered the demand for dollars abroad. The first of these was the Interest Equalization Tax, which penalized American investors who purchased foreign securities. With few exceptions, foreign countries and companies were effectively shut out of the New York capital market and were forced to look elsewhere for funds.

A Limit

In 1965, the Voluntary Foreign Credit Restraint Program limited the amount of foreign credit that U.S. banks could extend abroad. And in 1968, the Foreign Direct Investment Program, instituted in 1965 on a voluntary basis, became mandatory. This restricted U.S. companies from taking internally generated or borrowed funds out of the country, above a certain limit—forcing them to finance their overseas investment needs through the Eurodollar market.

The last of these restrictions were removed in January, 1974, but by then the market was estimated to have a gross size of some $189 billion and a life of its own. As the latest figures indicate, the abolition of the U.S. restrictions had little impact on the Euromarket.

There are a number of reasons why the market continues to exist. One of the most important is that it is the only place where dollar deposits of under 30 days can earn interest.

In addition, Eurobanks are able to offer slightly higher interest rates on deposits or offer loans at lower rates than domestic banks because there are no reserve requirements on Euromarket transactions.

Reserve requirements are iu-

(Continued on Page 8.)

U.S. Congress Concerned

Banks Now Govern Creation of Reserves

ARIS (IHT). — Commercial banks, mostly American, op- ing primarily through the market, have quietly taken the role as banker to the d.

r supplying credit and creat- international liquidity with- constraint and with fleeting rd to caution, they have ped the functions that for- ly were the province of offi- international institutions as the International Mone- Fund.

rom a rather modest $6.86 bil- of syndicated bank loans in , the Euromarket arranged 85 billion of loans in 1973 and aggering $29.26 billion in 1974. total last year dipped to just er $21 billion but it is clearly the rise again, with some 44 billion worth of credits an- nced so far this year.

ombank lending to Commu- t countries leaped almost ten- l in three years—from $274 llion in 1972 to $2.6 billion last r. Loans to the developing ountries outside the Organization Petroleum Exporting Countries PEC) expanded more than efold, from $1.5 billion in 1972 $8.26 billion last year.

A Contrast

oans to industrial countries year, at $7.23 billion, were ely double the 1972 level of billion while credits for the C countries almost tripled, m $933 million to $2.9 billion 976.

the wake of this pell-mell nsion of credit, the banks e permitted a number of ntries—notably among the de- ping states and in the Com- ist bloc—to run up debts that ear to be beyond their ability repay.

d what, at best, were well-intended loans to help needy countries over what were thought to be temporary balance-of-payments problems have turned out to be mixed blessings—allowing some of them to adopt profligate domestic policies that have worsened their economic woes.

At the latest count, according to Morgan Guaranty Trust of New York, the total external debt of the non-OPEC developing countries totaled $150 billion at the end of last year, of which $100 billion was lent to or guaranteed by the public sector. An estimated $59.3 billion of the total was owed to commercial banks and $38.5-billion—or 65 per cent of this bank debt—is owed to banks in the United States or their foreign branches.

Fed's Report

In fact, the six largest U.S. banks account for about two-thirds of all the loans made by the nation's banks to developing countries, the Federal Reserve Board reported to Congress last March. Although the Fed did not identify them, the six largest banks are: Bank of America, Citicorp, Chase Manhattan, Manufacturers Hanover Trust, Chemical Bank and Morgan Guaranty Trust.

The Fed, seeking to assuage a concerned Congress about the exposure of the U.S. banking system in the event of a default by the borrowers, noted that loans to Mexico and Brazil—which account for about half of the big banks' lending—each represented "about 1.5 per cent of the total assets" of the six banks and that "no other developing country accounted for as much as 0.4 per cent of the total assets."

Along with South Korea, Brazil

(Continued on Page 29.)

ome Fear an Overextension n Loans to the Third World

RIS (IHT).—The sizable in- volvement of commercial s in financing the balance- ayments deficits of the non- roducing less-developed ntries (LDCs), already a sen- e political issue, will un- tedly long remain one of major stumbling blocks to lishing smooth relations be- n the poor developing states e Southern Hemisphere and rich industrialized states of North.

e size of the debt—an esti- d $70 billion will be owed mmercial banks around the d by the end of this year already staggering and the cial needs of these states is xpected to diminish signifi- y in the immediate future. ile the rhetoric about a sive default on the out- ling debt has abated, the rs are clearly looking for to reduce their exposure ut inflicting undue hard-

Requests for large refi- ng facilities by countries as Argentina and Peru, are facing difficulties ng their repayments, and uncertainty about Zaire's to repay its debt have stionably had an impact e willingness of the banks on extending credits to ries which might soon be similar position.

eheduling or a moratorium ebts does not, to be sure, an actual loss to the banks. ans that the terms of the are lengthened with repay- spread over a longer pe- r that an extended holiday nted on paying back the pal. But the interest pay- often remain the same and ue to be made. What the "lose" is the opportunity leploy the capital commit- such loans—with the re- ment at what might have ven more favorable terms e banks. If the interest nts are rescheduled, there be some loss to the banks. basic fear among bankers t while the talk today is about rescheduling or a moratorium, what the developing countries really have in mind is either outright default or some kind of "forgiveness," with the industrialized countries picking up the bill owed the banks.

Default means the banks would

(Continued on Page 14.)

This Section

This special report was prepared and written by Carl Gewirtz.

The illustrations are by Garth Bell.

The Problems Presented by the Rising Debt of East Bloc Countries

PARIS (IHT).—Yesterday it was tanker loans that worried Eurobankers. Today it is the less developed non-oil exporting countries. And tomorrow it will no doubt be loans to the East Europeans.

At present, nobody knows for sure how much they owe Western banks. An unofficial estimate prepared for the U.S. government puts the total at the end of last year at $26.5 billion. The Bundesbank estimates it was between $30 billion and $35 billion. Morgan Guaranty puts the figure at $32.35 billion and Chase Manhattan says it totaled $38 billion.

The one point on which there is no dispute is that it is still growing.

Growing Concern

But increasingly, Western bankers and economists are questioning how much faster such lending should be permitted to continue. The political questions aside, there is growing concern that some of the East-bloc countries have already borrowed more than they can comfortably pay back.

The example most often cited by bankers and economists is Poland. Richard Portes, a professor of economics at the University of London and a specialist on socialist economies, estimates that "Poland is already using 30 per cent of its hard currency export earnings to refinance its outstanding debt"—a very high percentage. But the "real problem won't be felt until the end of the decade, when they will be in an insupportable situation."

At that time, the Poles will be faced with paying not only the interest on their loans but also with repaying the principal amount. Most loans have "grace periods" of two or three years during which time only the interest is paid. At the end of that period the principal is repaid in equal annual installments.

"The overall question," Prof. Portes says, "is whether they can generate enough hard currency export earnings from the technology they have imported to repay their debts."

"Hard currency" is any money that can be used to buy dollars to repay the loans. The Polish zloty is not a hard currency, it is not freely convertible into dollars and the dollar value the Poles attach to the zloty has no relation to what Western bankers deem it is worth.

This is true for all the East European members of the Council for Mutual Economic Assistance (Comecon), which groups the Soviet Union, Bulgaria, Czechoslovakia, East Germany, Hungary, Romania and Poland.

Almost all of them are heavily in debt to the West. The reliance on capitalist finance did not really get started until the early 1970s, when Poland launched an ambitious program of industrial reconstruction that relied heavily on purchases of capital goods from the West. The trend gathered momentum throughout the bloc and the debt began to pile up. The wheat harvest failures in the Soviet Union, forcing it to buy enormous amounts of grain in North America, added significantly to the debt totals.

Statistics compiled by the United Nations show that the East Europeans were selling more abroad than they were importing in the early 1970s, registering trade surpluses of about $1 billion in both 1970 and 1971. By 1972, imports began to exceed exports and the trade balance slipped into a modest deficit which widened to almost $1 billion in 1973. It doubled to $2 billion in 1974 and swelled to $10 billion by the end of last year.

The UN data shows the Soviet Union having the biggest short-

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The Eurobond Market Rides High, but a Fall Is Foreseen

PARIS (IHT).—The Eurobond market has never had it so good.

The volume of business done so far this year is a record $10.4 billion, dwarfing the $7.1 billion worth of bonds floated in the 12 months of 1975, the previous record.

The volume of transactions on the secondary market is a staggering $47.86 billion.

Traders report that they are making profits as never before, attracting new firms to the secondary market and adding liquidity to a market that has always suffered from the lack of it.

But amid this euphoria lurks another crisis for this fledgling market.

"One of these days, billions of dollars of Eurobonds are going to be looking for a home," said Stanley Ross, managing director of Kidder, Peabody Securities in London.

Like all the professionals operating in the secondary market, Mr. Ross is convinced that the bond market's revival owes as much to legitimate investor demand as it does to banks playing the money-market game.

The money-market game is deceptively simple. Dollar-denominated bonds currently pay interest of between 8 1/2 and 9 1/4 per cent. Meanwhile, banks can borrow dollars for, say, six months at around 6 per cent. So they borrow the dollars to buy bonds and pocket the difference of 2 1/2 to 3 1/4 points as their profit for sitting on the bonds.

Good Return

That is a pretty hefty return for doing nothing, particularly in a period when loan demand worldwide is very low and banks everywhere are seeking ways to deploy their assets to earn some money.

Exactly how much of this year's record activity on the bond market is due to such artificial demand is anybody's guess. There is not a banker to be found who does not believe that this is going on. But virtually all say "Oh no, not us!" when asked how many bonds their banks have taken into their own portfolios.

Armin Mattle, head of the London-based underwriting department of Union Bank of Switzerland, says that "hopefully, it's not more than 20 to 25 per cent" of this year's volume but admits to having heard estimates of as much as 40 per cent. Even if it is only 20 per cent, he adds, "that is still substantial."

Sooner or later the banks are going to unload their bond holdings. After all, they are not in business to buy bonds but to finance the needs of their clients. And at some point in the current economic recovery, weak though it may be at present, such commercial demand will pick up. The great wave of selling probably will begin even before then—when short-term interest rates begin to move up, erasing the profitable gap that now exists between them and the rates offered on bonds.

This turnabout had originally been expected to start in the au-

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EUROMARKET SPECIAL REPORT

A Multibillion-Dollar Pool of Funds Outside Control of Any Authority

(Continued from Page 7.)

struments of monetary control and are applied by central banks to domestic banking operations. The requirements are high when banking authorities want to curtail the banks' ability to make loans and low when they are seeking to encourage the expansion of credit.

Reserves

The absence of reserve requirements in the Euromarket is probably one of the sorest points among its critics. There are no such requirements because there is no authority sitting over the market to impose them. And calls for central banks in individual countries to impose such restrictions on Eurobanks operating within their jurisdiction have failed on two counts.

While conceivably the major European countries could agree to impose such restrictions uniformly it is hard to imagine that every country in the world would do so. Thus, Eurobanks would simply shift their operation to those areas free of such controls.

On a more technical level, it is hard to imagine how such requirements would be determined. Should the reserve requirements on Eurobanks be the same as banks in the country of issue of the currency or in the country of origin of the funds?

To be sure, individual banks do set aside reserves as a precautionary measure, but the amount is at the discretion of each Eurobank. This flexibility goes to the heart of the major controversy surrounding the market: Can it, does it, might it generate excessive credit expansion and add to inflationary pressures?

In national economies, economists can identify with some precision what the "multiplier" effect is—that is, how much credit can be generated by the deposit of one dollar, or deutsche mark or franc with a domestic bank. But in the absence of official reserve requirements, it is anybody's guess what the multiplier effect is in the Euromarket. Economists are still writing erudite papers on the subject, which other economists promptly shoot down as being incomplete or faulty.

"Some commentators believe that the Eurocurrency multiplier is quite large," C.W. McMahon, executive director of the Bank of England, wrote in the bank's Quarterly Bulletin in March. "Others, with whom I associate myself, are impressed by the scope for leakages from the Euromarkets into domestic banking systems. Such leakages occur, for example, when a final borrower from the Euromarket, or the eventual recipient of the funds, makes payments directly to the country of issue of the currency in question.

"Or the borrower, or eventual recipient of, say, a Eurocurrency credit, may convert the funds for use in a local currency and it would then require a deliberate decision on the part of whoever had acquired the dollars to return them to the Euromarkets (typically as time deposits) rather than to hold them, or use them, in the United States. To the extent that one can properly regard such decisions as part of a process of endogenous credit creation at all, they would certainly suggest that the leakages are likely to be larger than would typically apply within a domestic banking system, and hence would imply a pretty small Eurocredit multiplier."

Credit

In addition, academic opinion today holds that credit raised in the Euromarket tends to be a substitute for domestic credit rather than a net addition to total credit. Thus, it is argued, the market is not the wild money machine spawning credit and fueling inflation that many of its critics charge.

"Inflation," says Milton Gilbert, the retired head economist of the Bank for International Settlements (BIS), the central bankers' central bank and unofficial watchdog of the Euromarkets, "has not come about by excessive bank lending. The source of inflation is not monetary" but rather the mismanagement of national economic policies.

"What is inflationary," says Prof. Alexander Swoboda of the Graduate Institute of International Studies in Geneva, "is really domestic credit creation which—via the Euromarket—will tend to spread more rapidly into the rest of the world"

But the fine tuning of domestic policies has admittedly been rendered more difficult by the ability to circumvent tight credit policies at home by borrowing in the Euromarket. In 1966 and again in 1969, U.S. domestic banks were the largest borrowers of Eurodollars as they sought to escape the credit squeeze being applied at home by the Federal Reserve. The same has been true for banks in other countries. To prevent the same thing happening in West Germany, authorities there resorted to the Bardepot in the 1970s to limit Euromarket financing by the country's residents.

But academics argue that such alternate financing would have been found even if the Euromarket did not exist. They do acknowledge that the market's presence facilitated the search for offshore funds. But, they add, the resolution to this problem is for the domestic authorities to take steps, along the lines of the Bardepot, to isolate themselves from the Euromarket if that is what is needed.

No doubt one of the main reasons why many people, including some monetary officials, view the market as a force needing to be controlled is its role in financing the waves of speculation that have periodically swamped foreign-exchange markets since the late 1960s.

To this criticism, economists argue again that the speculation would have occurred in any event and that at worst the Euromarket was guilty of speeding up the process. It seems to be agreed that the mobility of capital has increased due to the fact that the Euromarket exists. The transmission of funds—primarily dollars—is quicker and cheaper than if the business had to be [illegible] via New York.

This increased mobility of [illegible] ital has unquestionably [illegible] catalyst in transforming the [illegible] ternational monetary system [illegible] a fixed-rate to a floating [illegible] orientation.

Essentially, these capital [illegible] were triggered by the [illegible] of central banks to maintain [illegible] rencies at either undervalued [illegible] overvalued levels. The stability [illegible] the exchange rate became a [illegible] of national honor and what [illegible] supposed to have been a [illegible] of fixed but adjustable rates [illegible] came, instead, rigid. To [illegible] in this stabilization, governments would have had to agree to [illegible] ordinate economic and [illegible] policies in order to maintain [illegible] constant equilibrium of one [illegible] rency against another. But [illegible] was not the case.

Disturbances

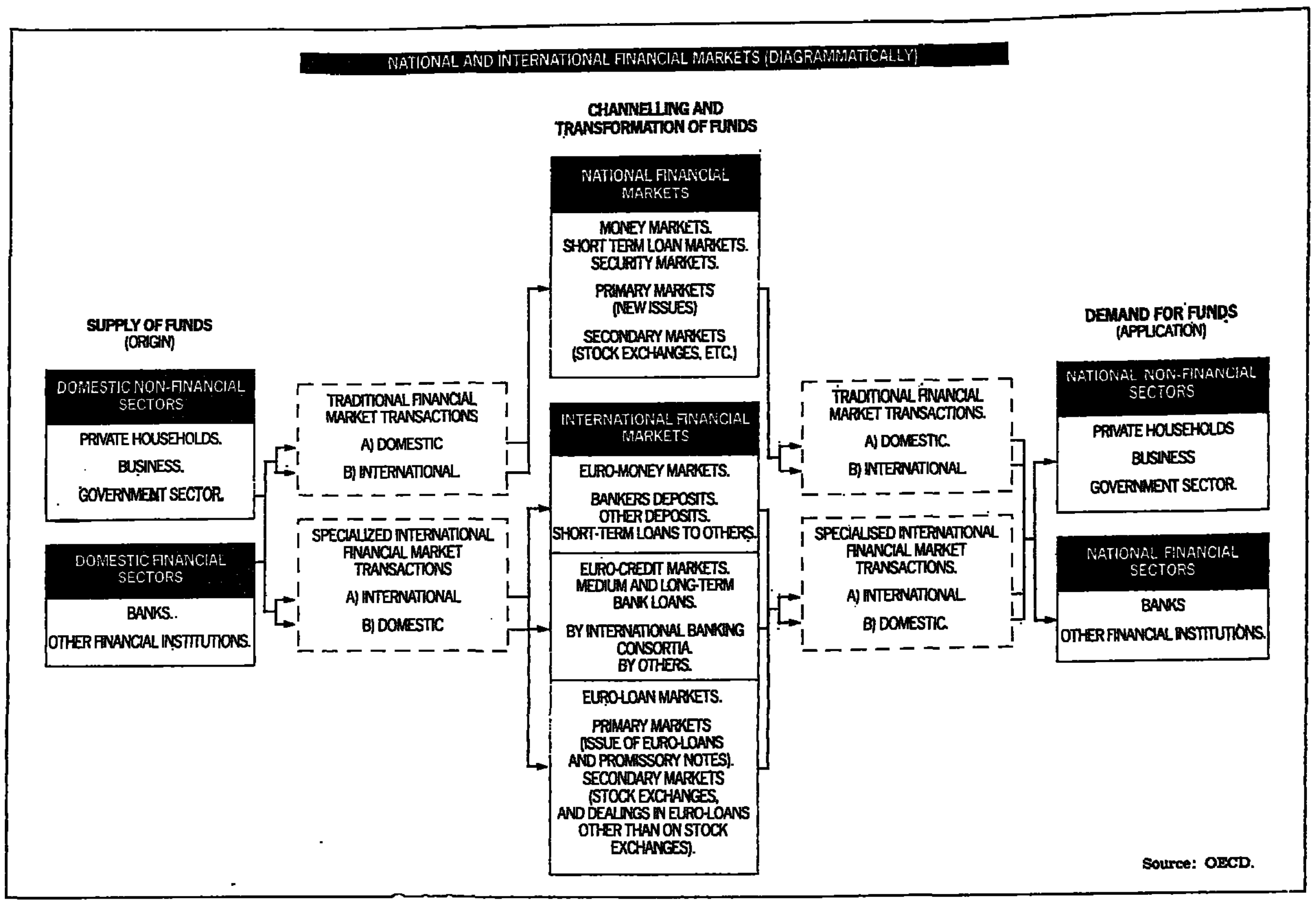
The central bank attempts [illegible] offset what now appear to [illegible] been obviously irreversible [illegible] turbances added fuel to the [illegible] and as the fixed-rate [illegible] moved relentlessly toward [illegible] breakdown the speculation [illegible] ipating it gathered momentum. In many cases, the speculation was motivated by a desire to [illegible] protected against such a break-down.

In effect, operators in the [illegible] romarket viewed the world [illegible] unit. Trade surpluses or deficits balance-of-payments [illegible] levels of inflation, interest [illegible] and the expansion of domestic money supply of one country [illegible] weighed against the performance in other countries. National [illegible] cials, on the other hand, [illegible] tablished policies that failed [illegible] take into account the high degree of economic interdependence [illegible] had evolved and that had changed the rules of the game.

"Bits and pieces of [illegible] economic integration are running ahead of a broad range of [illegible] cal and public opinion as [illegible] the scope of public policy," [illegible] Peter Oppenheimer, a Fellow [illegible] Christ Church, Oxford.

"And it's not only a [illegible] for the Euromarket," he continues. Another example, he says, [illegible] way multinational companies mainly U.S. firms, have [illegible]

(Continued on Page 10, Col. [illegible])



Source: OECD.

EUROMARKET SPECIAL REPORT

A New Emphasis in Calls to Impose Control on Euromarkets

Given the dramatic changes in the international monetary system—the shift to floating exchange rates, the petrodollar recycling and the attendant heavy borrowing by almost all other countries to finance their balance-of-payments deficits—the accent on calls to control the Euromarket has shifted.

...RIS (IHT).—For investors, ...the Euromarket is a source ...nterest income free of taxes ..., for very short-term invest...ts, often the only way such ...rest can be earned.

...or borrowers, the market has ...a no-questions-asked source ...funds—frequently used to ...mvent the tight credit ...cies which made it impossible ...orrow money in their home ...kets.

...nd for central bankers, who ...date banking within their ...ders and who control the ...ation of money through the ...dit levers at their disposal, ... Euromarket has been a ...ring, frustrating Franken...n capable of creating unlimit... amounts of money outside the ...trol of any authority.

...ut try as they may, the gray...rds themselves were unable to ...ee on how to regulate the ...rket. Italian and French ...ings for controls were deflect... by Britain and Luxembourg ...o argued that the banks would ...ok" their Euromarket dealings ...m banks located in areas where ...trictions were not imposed.

...he best the central bankers ...ld come up with was an agree...nt among themselves to try ...limit the growth of the market ... not depositing their own dol... reserves in the Euromarket. ...the past, with the dollar under ...ere attack, European central ...iks were forced to issue vast ...ounts of their own currencies ... buy dollars being sold and ...is maintain the then fixed ex...nge rates.

Interest-Bearing

...he dollars the central banks ...ight were not stuffed into ...ilts and left to sit idle, but ...re put out to earn interest. ...metimes the dollars were used ... buy short-term U.S. govern...nt securities, such as short...ed Treasury bills. And other ...es, because the interest to be ...ned was greater, the dollars ...re deposited in the Eurodollar ...arket.

In mid-1971, the central bank...s suddenly realized that these ...rodollar deposits were feeding ...e supply of funds used to mount ...e speculative attacks on the ...reign exchange markets. Ac...rdingly, they decided "for the ...me being not to place additional ...ficial funds in the market and ...en to withdraw funds when ...ch action is prudent in the ...ht of market conditions," an ...ficial communiqué on June 14 ... that year declared.

The restriction applied only to ...llars, by far the biggest seg...nt of the Euromarket.

Without any fanfare, this ...reement was terminated late ... the summer of 1974 as the ...romarket was writhing through ... worst crisis to date.

In June of that year, Bankhaus ...rstatt of West Germany col...sed after having run up losses ... some 500 million deutsche ...rks speculating in the foreign ...change market. The bank's ...sh had nothing to do with ... Euromarket. But the impact ...re was immediate.

...he bank had borrowed short...m funds from a number of ...er banks, so-called inter-bank ...ns. Inter-bank transactions ac...nt for almost half of the gross ... of the Euromarket. Until ...statt's failure almost any ...k could tap this market, bor...ing at the same terms as the ...gest banks in the world.

Caution

...ut after its collapse, great cau... swept the market. Banks ...an cutting credit lines they ...e willing to extend to others ... as rumors swept the market ...t this or that bank was in dif...lty some banks found it almost ...ossible to borrow funds.

...; the borrowed funds were al...t invariably U.S. dollars, the ... damage was to the smaller ...opean banks. They have no ...ural" source of dollar inflow. ...J.S. banks do and are totally ...ndent on the inter-bank ...ket to refinance their own ...r-denominated engagements. ...e usual practice in a $100-...on, five-year syndicated Eu...n, for example, is for the ...s to finance their portion of ... loan by borrowing dollars for ... months and "roll over" the ... every six months for the ... five years. Suddenly, ac... to these roll-overs, which ... then had always been taken ...granted, was restricted. The ... 40 biggest European banks ... unscathed, but the hundreds ...maller banks found that if ... could borrow funds at all the ... of funds was considerably ... than what the biggest banks ... to pay.

... it was, the cost of money ... already at fantastic levels. ...United States was in the midst ... tight credit policy that had ...d the cost of overnight ...y there to almost 13 per cent ...ily and the quoted cost of ... and six-month Eurodollars ... almost 14 per cent.

Scuttling

...idst this liquidity squeeze ...crisis of confidence among ...banks, the European central ...s are reliably reported to ... scuttled their agreement not ...ace their dollar reserves in ...uromarket.

In September, after a regularly scheduled meeting at the Bank for International Settlements in Basel, the central bankers reported that "they recognized that it would not be practical to lay down in advance detailed rules and procedures for the provision of temporary liquidity (to the the Euromarket). But they were satisfied that means are available for that purpose and will be used if and when necessary."

Today, some of the European central banks—led by the Bundesbank—voluntarily refrain from depositing their dollars in the Euromarket. But others, including the BIS itself, do use the Eurodollar market.

The main factor in this changed attitude is the realization that the amounts of dollars these central banks have to recycle through the market are minuscule relative to the inflow from other central banks, particularly the newly-rich oil-exporting states—an estimated one-tenth out of a total $60 billion.

Given the dramatic changes in the international monetary system—the shift to floating exchange rates, the petrodollar recycling and the attendant heavy borrowing by almost all other countries to finance their balance-of-payments deficits—the accent on calls to control the Euromarket has shifted.

The emphasis, instead of being on ways to check the market's growth and alleged inflationary impact, is now on means to safeguard the market's stability and its fundamental health.

The prime tool is the Committee on Banking Regulations and Supervisory Practices established at the end of 1974 by the governors of the major central banks: Belgium - Luxembourg, Britain, France, Italy, the Netherlands, Sweden, Switzerland, West Germany, the United States, Canada and Japan.

Main Function

The basic function of the committee is to attempt to bridge the gap between the close supervision that exists in domestic banking operations and the less regulated international exposure of banks which falls outside the range of most supervisory systems.

In explaining how the committee works, chairman George Blunden, an executive director of the Bank of England, told a recent conference that it was instructed "not to make far-fetched attempts to harmonize the 12 countries' individual system of supervision" but rather "to learn from each other and to apply the knowledge to improving their own systems of supervision."

The committee, he said, does not concern itself with individual banks or try to reach agreement on classification of the degree of risk involved in lending to individual countries or companies.

The emphasis, he added, is on "mutual education" to enable members to learn about the supervisory techniques used in other countries and about new developments in them.

'Attitudes'

"We have compared notes on techniques of support and rescue operations," he said, "and we are currently studying the various attitudes adopted among member countries to the role of loan capital in a bank's balance sheet, to requirements for endowment capital of foreign branches, to arrangements for bank audits and to control over potential clashes of interest arising from involvement of banks or bank directors and managers in non-banking activities.

"It is too soon to say whether these studies will all be merely of a mutual educational nature or whether some of them may lead to recommendations to the governors for the adoption of agreed principles."

In addition, he noted, the committee, in fostering the establishment of confidential relationships among national supervisory authorities, permits the "passing of sensitive information" from official to official.

One of the major goals of the group has been to establish guidelines for cooperation between national authorities in the supervision of banks' foreign establishments. The acceptance that supervisory agencies are responsible for banks within their territory does "not preclude there being gaps in the supervision of such establishments," he noted.

"Owing to differences in definition, a particular foreign establishment may be classified as a bank by its parent but not by its host supervisory authority," he stated. In addition, it is important that the supervision meet the standards of parent authorities as well as host supervisors. Differences can arise, he explained, "because host authorities are interested in the foreign banks operating in their territories as individual institutions and from the point of view of what happens in their own markets, while parent authorities are interested in them as parts of larger institutions."

So far, the committee has drawn up general guidelines regarding liquidity, solvency and foreign exchange operations.

"Responsibility for supervising liquidity must rest with the host supervisory authority." But, he noted, "not all host authorities accept the same degree of responsibility for supervising liquidity in foreign currencies as they do for supervising liquidity in the local currency. As a result, parent authorities may again feel the need to concern themselves with this aspect of their banks' foreign branches.

"Parent supervisory authorities may also be concerned about the liquidity of foreign subsidiaries or joint ventures" which may have standby facilities from their parent banks.

Noting that the legal position of foreign subsidiaries and joint ventures is different from that of foreign branches, he said that supervisory authorities "cannot be indifferent to the moral responsibilities of the parent (banking) institutions for seeing that they do not default on their commitments.

"It is now generally accepted that it is expedient that their banks should protect their reputations in this way," he stated.

Solvency

On the question of solvency, he said that the primary responsibility rests with the host supervisors in the case of foreign subsidiaries and joint ventures.

On the other hand, "the solvency of foreign branches is indistinguishable from, and integral to, that of the parent bank" and "is therefore essentially a matter for parent supervisory authorities."

Turning to the foreign exchange operations of banks, he noted that supervision has three aims—partly prudential, partly for balance-of-payments reasons and partly to assist the maintenance of orderly market conditions.

"Prudential supervision is a matter for both host and parent authorities since foreign exchange operations bear on both liquidity and solvency" while balance-of-payments and market conditions "are clearly the concerns of host supervisory authorities."

To assure more effective supervision, the committee is recommending that banking authorities have the power to exchange reports. Such transfers, Mr. Blunden remarked, are at present "often impossible because of banking secrecy laws." The committee would also like to see direct inspections by parent supervisory authorities of their domestic banks' foreign operations. While this is widely practiced, not all countries allow it.

The committee, which meets three to four times a year, has also established contact with supervisory authorities in some 60 other countries which also participate in international banking.

Offshore

As matters stand, banks based in Britain operating in the Euromarket enjoy a high degree of freedom as far as their "offshore" operations—that is, foreign currency operations with foreign borrowers and lenders are concerned. The same degree of freedom applies to domestic interbank operations in foreign currencies, which greatly facilitates "offshore" operations by the banking system taken as a whole.

The banks are entirely free to take foreign-currency deposits or to raise foreign-currency credits from non-resident banks and non-banks for the purpose of re-employing these funds in foreign-currency banking transactions abroad or in the domestic foreign-currency interbank market.

There are no obstacles, either in the form of minimum reserve requirements or special deposit requirements on foreign-currency assets or liabilities, though the maturity structure of the Euro-operations of individual banks is supervised.

However, links between the domestic economy and the Euromarket are closely controlled to prevent the outflow of capital via the Euromarket and to regulate the inflow of capital.

In addition, links to the Eurosterling market are severely controlled, with neither banks nor non-banks allowed to supply funds to that market.

France, which accounts for about 15 per cent of the European share of the Euromarket's activity, is the second most important center after Britain (about 50 per cent)—enhanced by the fact that there is a relatively important domestic inter-bank market in foreign currencies. While banks engaged in Euromarket operations in France also enjoy a high degree of freedom regarding their "offshore" operations, links with the domestic economy are closely controlled.

France imposes no reserve requirements, interest-rate controls or withholding taxes on Euromarket operations and imposes no maturity constraints on foreign-currency assets held abroad.

However, there are tight controls on operations that could result in capital outflows from the domestic economy. In addition, neither banks nor non-banks are allowed to supply funds to the Euro-franc market.

Switzerland, which is the third most important center—about 10 per cent of the activity, including trust accounts—has over the years become more restrictive as the authorities attempted to shield the domestic economy from excessive capital inflows which have pushed the value of the franc through the roof.

Swiss Tax

The thrust of the defensive actions fell on operations involving the Swiss franc. But the banks' foreign-currency business was also affected, which no doubt explains why Switzerland's growth as a Euromarket center has not kept pace with the expansion of the overall market.

This, however, does not mean that Swiss banks have reduced their activity in the market since they can participate via their foreign branches, subsidiaries and joint ventures based in other Euromarket centers.

The "offshore" banking—foreign currency borrowing for lending abroad—has been adversely affected in Switzerland by a 35 per cent withholding tax which non-residents, as well as residents, have to pay on interest received from holdings of bank deposits, whether in domestic or foreign currency. However, banks are exempt from this tax if the deposits do not exceed one year. Thus, to the extent that the banks' lending is refinanced in the international market for short-term interbank funds, the banks' foreign-currency lending business with non-residents is not impeded.

Although the Swiss have minimum reserve requirements on nonresident deposits, these are operated in such a way by the central bank that offshore banking operations in foreign currencies are virtually unaffected.

All of this said, foreign-currency deposit and lending remains a very important part of total Swiss banking business, witnessed by the fact that the foreign-currency assets and liabilities of the big Swiss banks account for almost 40 per cent of their balance-sheet totals.

Data

Belgium-Luxembourg, listed in the statistics compiled by the Bank for International Settlements as one unit, are in fact two separate centers. The combined BIS data shows that they account for some 15 per cent of total external foreign currency liabilities of the nine major European countries.

The Euromarket operations of Belgian residents with their own banks is subject to a 20-per-cent withholding tax and as a result most of their business is done through Luxembourg or other centers. However, non-residents have no such problems operating directly through Belgian banks.

Belgian banking regulations also encourage banks there to concentrate their activities in the inter-bank market, lending to other banks, rather than participating in syndicated loans.

Granting Eurodollar roll-over loans to non-banks falls under an equity ratio of 5-to-1, which means a Belgian bank with a capital of $1 billion would theoretically be limited to making total loan commitments not exceeding $20 billion. However, bank-to-bank loans involve a ratio of only 1-to-1, which in theory means the bank could grant credits of up to $100 billion.

Tax Free

Operations in Luxembourg are entirely free of tax or other obstacles and banks there enjoy what analysts label "an enormous degree of freedom."

The Netherlands ranks as the sixth largest European center in the Euromarket. Foreign transactions form a very important part of the activities of commercial banks there, with external assets—mainly foreign currencies—accounting for almost 44 per cent of balance sheet totals at the end of last year.

There are no obstacles in the form of foreign exchange controls, minimum reserve requirements, tax regulations or otherwise. The guilder plays a minor role in the Eurocurrency pool—about the same size as the Euro-French franc and Euro-sterling—accounting for about $3.6 billion at the end of last year. Each of these currencies accounts for about 2 per cent of the total Euromarket pool of funds.

The domestic economy is to a large extent shielded from unwanted capital inflows, whether originating in the Euromarket or in foreign national financial markets. The net external position of the banks in foreign and domestic currency taken together is controlled via a ceiling on net liabilities which, according to a gentlemen's agreement, must not exceed 5 million guilders (about $2 million) per individual bank.

Loans exceeding 100 million guilders to any one foreign borrower in one calendar year require government permission and loans raised abroad are permitted only if the proceeds are not used for the financing of domestic operations.

Although the Eurodeutsche mark is the second most important currency after the Eurodollar—accounting for almost 16 per cent of the Euromarket—West Germany itself ranks as one of the smallest market centers.

No Ban

This is mainly due to a long history of defense measures taken to ward off undesirable capital inflows. It also reflects the general opinion of officials that German banks should not contribute

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EUROMARKET SPECIAL REPORT

Multibillion-Dollar Pool Outside Control

(Continued from Page 8.)

throughout the world, viewing it as a single production base while national authorities try to grapple with individual units.

In theory, floating exchange rates are supposed to overcome the inherent conflict between interdependent world and independent national economic policies. As the dollars generated by an expanding U.S. economy and easy money policy spill abroad into other currencies, for example, there need not be any increase in the reserves or the money supply of the receiving country—as under the fixed-rate system—since the value of the dollar ought to depreciate while the value of the desired currency appreciates. This shift in values will ultimately make it too expensive to sell dollars and the pressure will abate as a new equilibrium is found.

In fact, however, official intervention in the foreign-exchange markets picked up this year and was "perhaps the largest since the generalization of floating in early 1973," the Organization for Economic Cooperation and Development observed in its midyear Economic Outlook. While the amounts involved have not reached the proportions of the pre-floating era—when in one week as much as $6 billion flowed into West Germany for conversion into deutsche marks—it is apparent that as the inflation-feeding effect of a downward float becomes apparent, governments are becoming more defensive.

The recycling of the oil exporters' surplus—virtually all in dollars, a large part of which is deposited with Eurobanks—has allowed states from southern Africa to northern Europe and from Southeast Asia to Latin America to run balance-of-payments deficits financed by Euro-currency borrowings.

These deficits represent the amount by which a country is spending more abroad than it earns. The borrowings, in effect, permit these countries to live beyond their present means—traditionally a cardinal economic sin.

The BIS, in its annual report in June, described the problem this way:

"Forceful action to combat inflation may be expected to have not only direct effects on domestic prices and wages but also an indirect effect via the exchange rate. The policy actions themselves, together with the expectations they engender, tend to strengthen the rate by more than is warranted on immediate purchasing-power-parity grounds. In this way, by lowering import costs and holding down export profits, exchange appreciation reinforces the direct effects of anti-inflationary policies and helps to make them self-fulfilling. Whenever, on the other hand, domestic inflation leads to exchange depreciation, this will tend to feed inflation—and such a 'vicious circle' can then be broken only through drastic policy action."

The irony of this is that neither extreme is useful. Switzerland, for example, whose inflation rate has been cut to almost nothing thanks to the massive appreciation of its franc, is screaming that its export industry is being ruined while Britain is trying desperately to brake sterling's erosion as one way to reduce the level of inflation fed by rising import prices.

Intervention

One of the main obstacles in overcoming this vicious cycle is the attitude of the United States strongly favoring floating rates. To begin with, foreign trade represents only a small portion of America's gross national product—something less than 15 per cent—whereas in Europe the figure ranges up to 60 per cent.

A change in the value of the Swiss franc, for example, affects only a minute portion of U.S. trade. For the Swiss, however, an appreciation of the franc against the dollar affects a large portion of their trade, since the currency of many countries moves in tandem to the dollar.

As a result of these factors, intervention by European monetary authorities has been on the rise as government officials try to juggle exchange rates against inflation rates. But the presence of the Euromarket makes it difficult to do both, for attempting to fix exchange rates in the absence of a coordinated economic policy with other countries invites the same kind of speculation that was manifest in the years before floating rates were established.

But unlike those years, there is little public clamor nowadays for the need to muzzle this aspect of the Euromarket. Perhaps this reflects the growing awareness that the speculation would occur in any event. But the more likely answer is that the market is currently engaged in financing the balance-of-payments deficits of many oil-importing states, industrialized countries as well as the developing states, and no official wants to upset this process.

The recycling of the oil exporters' surpluses—virtually all in dollars, a large part of which is deposited with Eurobanks—has allowed states from southern Africa to northern Europe and from Southeast Asia to Latin America to run balance-of-payments deficits financed by Euro-currency borrowings.

Depression

These deficits represent the amount by which a country is spending more abroad than it earns. The borrowings, in effect, permit these countries to live beyond their present means—traditionally a cardinal economic sin. But without recourse to such loans, the importing states w[…] have been forced to [...] drastic domestic defl[…] measures in an attempt to [...] their international accounts [...] balance. And if all the [...] porting states embarked on [...] programs at the same tim[e] surely would have trigg[ered] worldwide depression.

Recycling, then, has give[n] oil importers the breathing [...] to spread over years their [...] ment to the price increase.

Of course, the task need [...] have been left to private ma[...] to handle. Official transfers [...] the oil states themselves [...] big recipients of these "petrodol[...] lars"—such as the United Sta[tes,] Switzerland and West Germ[any] —could theoretically have [...] done the job. But it would [...] have been done quickly eno[ugh] to avert severe dislocation, [...] experts believe.

In any event, the major ind[us]trialized states agreed that [...] need not and should not be [...] immediate adjustment to the[ir] deficits. And they agreed [...] that the private markets sho[uld] handle as much of the recy[cling] as they were willing to, since [...] vast majority of the early [...] pluses went into short-term [...] deposits.

Flexibility

In the view of Mr. McMahon [of] the Bank of England, "It is [...] difficult to imagine how [...] system could have stood up [...] the stresses and strains of [...] last few years without the und[er]pinning of robustness and fle[xi]bility that the Euromarkets ha[ve] provided."

Amid such cheers, however, [...] a growing awareness that c[om]mercial banks cannot and sh[ould] not do the entire job themsel[ves.] The massive accumulation of [...] is now an active worry to ba[nk]ers who extended the loans and [...] borrowers who now must [...] to grips with how to repay the[m.]

The banks, of course, have [...] been the only source of fina[nce.] The so-called "oil facility" of [...] International Monetary Fund [...] some $7.8 billion to needy sta[tes] and the oil-exporting states the[m]selves have granted bila[teral] loans. But the IMF facility [...] now ended and the scale of [...] exporter loans is likely to be [...] restricted—as a result of [...] recent downturn in world dem[and] for oil as well as the [...] spending programs of the exp[ort]ers to develop and diversify [...] own economies.

The "breathing space" pro[vid]ed by the official and pri[vate] recycling thus appears to [...] drawing to a close. And the [...] phase—of coming to terms w[ith] the fundamental adjustments th[at] need to be made in each cou[ntry] —is likely to be a much more [dif]ficult period—for the banks [as] well as the borrowers.

LDCs' Access to the Bond Market

PARIS (IHT).—The non-oil-exporting developing countries have been big borrowers in the international market, averaging over $6 billion a year in Eurocurrency credits and accounting for some 27 per cent of all loans announced between 1973-75.

But their access to the public bond market has been almost nil. Bond issues during the same period totaled an average of $450 million, or about 3 per cent of the total volume. In addition, three countries have accounted for the bulk of this borrowing—Israel, Mexico and Brazil.

Specialists at international aid agencies as well as officials in the less-developed countries would like to see more bonds sold to the public. Bonds are a more stable source of funds and usually can be arranged for longer periods than syndicated bank loans.

Least Risky

The difficulty, of course, is getting investors—either professional institutions like insurance companies and pension and bond funds as well as individuals—to accept such securities. Bonds, by their very nature, are the least risky securities that investors can buy and a high premium is put on "creditworthiness."

A special committee of the World Bank is currently studying what can be done to open the public bond market to developing states, particularly the so-called "threshold countries" which are deemed the most creditworthy of this group of states and which are the closest to standing on their own feet in the public markets.

Among the possibilities under consideration are World Bank guarantees for such loans. The bank itself enjoys one of the highest credit ratings on world bond markets and its imprimatur, it is assumed, would entice investors to buy bonds that it guarantees. The bank, however, is reluctant to have to set aside assets to back up such guarantees until its own capital base has been increased.

Also under study is the use of multilateral guarantees, from groups of industrialized countries, or guarantees from other institutions such as the International Monetary Fund.

The World Bank's commi[ttee,] which reported on its discussi[ons] at the IMF-World Bank ann[ual] meeting in Manila early in Oc[to]ber, is scheduled to meet ag[ain] in January.

A Bar

In the meantime, it was [...] to report that countries w[ith] highly developed capital marke[ts] —such as the United Stat[es,] Switzerland, West Germany an[d] Japan—agreed to "afford fav[or]able treatment to develop[ing] countries with regard to perm[is]sions to make an issue" and th[at] those countries which set lim[its] on the amount of foreign issu[es] "would endeavor to keep develop[]ing-country borrowers outsid[e] these limits."

The report also noted th[at] "since the Eurobond market pr[e]sents potential opportunities [for] developing countries to r[aise] finance, countries whose curr[en]cies are in strong demand [...] which maintain restrictions o[n] international issues denominat[ed] in their currencies would e[n]deavor to give favorable t[reat]ment, as among foreign borrow[ers,] to developing countries."

A New Emphasis on Imposing Control

(Continued from Page 8.)

in an uncontrolled manner to the expansion of the Euromarket since it is felt this would add to its inflationary potential which could inhibit the Bundesbank's monetary policy.

Late last year, the Bundesbank dropped its ban on interest payments on non-resident deposits both in domestic and foreign currencies—a ban which had forced German banks to conduct almost all of their Euromarket business through subsidiaries and branches based in Luxembourg. Since the removal in September 1975, non-residents' deposits in domestic and foreign currency, especially from foreign non-banks, have shown a clear tendency to rise.

However, non-resident deposits and borrowings in general continue to be affected by minimum reserve requirements and this impairs the "offshore" banking role of West German banks.

By contrast, there are no obstacles for German banks and non-banks to act as suppliers of funds to the Euromark sector of the market. Interest rate and liquidity differentials are the main determining factors of capital flows.

In fact, it is frequently ch[eaper] for Germans to borrow Eu[ro]marks than to seek dome[stic] funds because of the cost e[ffects] of minimum reserve requirem[ents] on DM liabilities of banks oper[at]ing in Germany. But the [mini]mum reserve requirements [...] Euromarks in Germany [...] those doing business in [...] market to pass their o[...] through centers outside G[ermany,] many, where no such req[uire]ments are imposed. Analy[sts] believe that this has contribut[ed] to the strong expansion of [the] Euromark sector of the mark[et.]

EUROMARKET SPECIAL REPORT

'he 'Offshore' Banking Centers: Myth and Reality

The Asian dollar market (or Asian currency market, as it is termed locally) is in fact an extension of the Euromarket. Only the subtleties of geography distinguish an Asian dollar from a Eurodollar . . .

IS (IHT). — "Offshore" nking centers come in ig sizes and reputations, are throughout the world, and qual parts myth and real- Similarly, they go by a er of somewhat unflattering s, including tax gimmick, plate, mailbox and book- ng fiction. These centers y operate in a kind of legal ht zone, where normal con- and regulations, if they at all, are seldom rigorously ced.

"offshore" activity is basical- ne that, through formal ment, lies outside the juris- n of the particular political y where it takes place. Thus ore banking generally refers erations in foreign curren- by foreign banks, usually igh not always) with non- ents. As a single global omenon, offshore banking itutes a series of often y sophisticated symbiotic ionships between host coun- and international banks go far beyond, for example, normal interaction between wer and lender. They are relationships where mutual ntages rely to a very great e on secrecy, thus making world difficult to penetrate portray with any statistical sion.

The Number

pending on who is doing counting, there are anywhere twelve to twenty such cen- ranging from the tiny ch tax haven of Port Vila e New Hebrides to the $10- n Asian currency market in apore, with its 66 banks sed to do foreign currency ations. The most important, ever, are concentrated in the bbean, Panama and the Far (chiefly Singapore and Hong g). A third important center emerged since the fall of in Bahrain, which to date has ized 27 offshore banking li- ses and where already operat- offshore units a year ago re- ted nearly $1.5 billion in as-

shore banking centers fall two basic categories. By far most numerous are those t exist primarily as a technical ice for overcoming incon- iences caused by time dif- nces and taxes. This can n a simple foreign exchange post in Bahrain, for example, th lies in a time zone between s of Europe and the Far East, the key function of these ers is to provide an address registering business generated where. Given the liberal king regulations in these s, which normally include e or no income tax on interest ied by commercial banks on hore loans and exemptions withholding taxes on for- currency deposits, the advan- s of such "booking addresses" are not inconsiderable and explain why New York banks book a certain number of loans through the Bahamas or Cayman Islands.

These "name plate" branches also have an obvious cosmetic value. "Commercial banks just like to open offices," concedes one American banker, who also notes that when banks initially opened offshore branches they were simply following the expansion of their multinational customers. (Although spiraling operating costs all but ended such new banking ventures abroad by mid-1974, they appear to be again in vogue in the Middle East and elsewhere.) In addition to natural competitive forces that compel banks to open offices in new offshore centers, even small branches can serve as important links between local monetary authorities and the home office.

If a bank were to participate in a loan to a country where it had a branch, suggests a banker in Paris, one way to maintain good relations with authorities in that country would be to use the name of its local subsidiary on the loan rather than that of the headquarters office.

Offshore Centers

Of far more importance, however, is that group of offshore banks that operate in genuine commercial centers. Here banks generate their own business which is usually drawn from a large regional base. These offshore centers offer the same advantages found in the more narrowly bookkeeping outposts—central location and proximity to transportation, communication and trade routes; benevolent attitude of monetary officials; more direct access to the local market. The most highly developed of these regional financial centers is Singapore, generally regarded as the capital of the Asian dollar market. Panama plays a similar role in Latin America, while authorities in Bahrain hope to make that state an Arab financial center and to create in the Persian Gulf region a market capable of handling investment of surplus oil revenue.

The Asian dollar market (or Asian currency market, as it is termed locally) is in fact an extension of the Euromarket. Only the subtleties of geography distinguish an Asian dollar from a Eurodollar, and when commercial banks in Asia lend dollars locally, they normally transfer matching deposits from their European branches. And the three-month SIBOR—Singapore interbank offered rate—has since 1971 shadowed LIBOR with no significant deviation. The size of the entire pool of Asian dollars is estimated at over $12 billion.

The Asian dollar market is primarily an interbank market and its chief mechanism in Singapore is the Asian Currency (ACU)—administrative sections within individual banks that are authorized to lend and to accept deposits in currencies other than Singapore dollars. ACUs serve for the most part an offshore clientele; it is estimated that as much as 90 per cent of all ACU non-bank lending is to non-residents. The policy of the Monetary Authority of Singapore of steadily relaxing exchange control regulations, of reducing or eliminating a wide range of taxes and duties on offshore operations and of abolishing the 20 per cent liquidity ratio for commercial banks appears to have secured for Singapore the position as center for this market.

Dynamism

The dynamism of the nonbanking sector of the Asian dollar market is of special interest. According to a First National Bank of Chicago report, "the deposits of businesses, individuals and other non-banking customers . . . have grown at an average rate of over 50 per cent per year, from $144 million in 1970 to some $2 billion in 1975." This in part represents an important shift away from traditional patterns of reinvestment in family business and an attempt by investors to diversify assets. The development, says First Chicago, "will encourage the mobilization of capital for long-term, relatively secure investments," a crucial first step toward the creation of an Asian bond market.

Panama, on a somewhat smaller scale, is an offshore center in much the same commercial tradition. The center is ideally located between North and South America and at the crossroads of Atlantic-Pacific trade. The supervisory role of the Comision Bancaria Nacional is limited to general surveillance and offshore banks are not subject to legal reserve requirements, interest ceilings or taxes. Over 80 per cent of the estimated $2.5 billion in foreign currency deposits in 1973 were in interbank time deposits.

But instead of promoting itself as a world or regional lending center, on the Singapore model, Panama has courted international banking in order to gain access to the Eurocurrency market to secure development funds and to help finance government deficits. Thus Panama's bank haven status is not unrelated to the country's long history of Eurocredits, which dates from 1969.

Relationship

In addition to Panama's quid pro quo relationship with the Euromarket, host countries derive other benefits from welcoming offshore banking. Through their efforts to create a major offshore center monetary authorities in Bahrain hope to bring needed banking and financial expertise to the region and to create local liquid investment opportunities. Offshore banking supports a surplus in Singapore's services account which in turn helps to offset the country's trade deficit. And the institutionalization of funds in these offshore centers makes funds more immediately accessible to local borrowers.

Offshore centers do have certain drawbacks, not the least of which are their often remote and unattractive locations. Facilities in such areas are usually limited and rents are always high. If regional branches often have a better understanding of local markets and customers, they normally lack the authority to arrange large loans, and some borrowers find it ultimately more convenient to deal directly with New York, London or Paris. Although fly-by-night operations are discouraged by the requirement in most offshore centers that foreign operations have full branch status rather than local incorporation, there is still a lingering doubt among some borrowers as to whether or not the home office will fully cover its subsidiaries. And there is finally the largely unanswered question of the advisability of lowering credit requirements for countries like Panama in consideration for favors done offshore.

The precise impact of offshore centers on the Euromarket is almost impossible to determine.

Funding

Most offshore lending is funded by banks headquartered in other countries and this often leads to double-counting of the loans. Monetary authorities that loosely monitor offshore centers publish no geographical breakdown of the origin of foreign currencies. And for obvious reasons, the banks themselves discuss the subject in the vaguest generalities. Nonetheless, the Bank for International Settlements estimates that in March, 1976, offshore centers as sources of funds accounted for $24.1 billion or 11 per cent of Eurocurrency funds—this compared with almost 40 per cent for the BIS's reporting European area banks and 16 per cent for the oil-exporting countries. While the share from Western Europe and the oil exporters has remained the same over the last three years, offshore contributions have increased by 20 per cent.

EUROMARKET SPECIAL REPORT

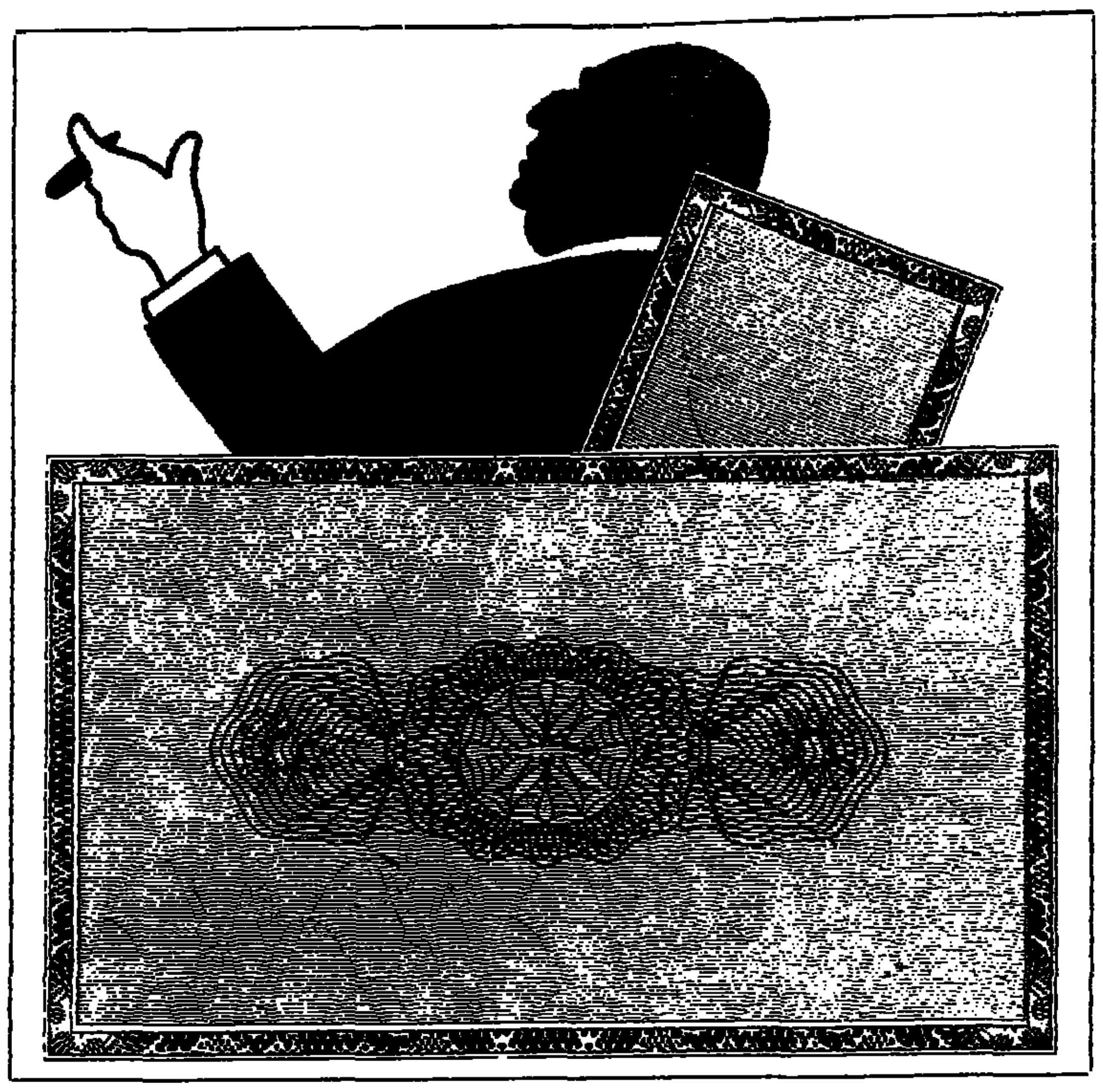
Instruments of Investment in the Euromarket

PARIS (IHT). — Banks, corporations and institutional and private investors participate in the Euromarket in the following ways:

• **Deposits:** Money can be placed with banks for any period from overnight to five years. In actual practice, the bulk of the deposits is in maturities of one year or under. Interest to be paid on deposits of more than one year is usually negotiated between banker and client; rates for one year and under, which vary from day to day according to market conditions, are uniform from bank to bank.

The normal minimum deposit is $100,000. Many banks will accept deposits starting at $25,000, but the interest paid will be less than that offered on the normal minimum. The daily Eurocurrency interest rates published by the International Herald Tribune, for example, are the bid and offered rate for deposits of $100,000. A deposit is for a fixed period and can be withdrawn prematurely only with great difficulty and then after a penalty has been paid.

• **Certificate of Deposit (CD):** This is exactly what the title means, a piece of paper showing that a deposit has been made with a certain bank. It differs from a normal deposit in that a CD is negotiable and transferable. An active secondary market exists in London, which means a CD is a liquid instrument that can be cashed in at any time. In return for this liquidity, investors earn slightly less interest than if they had made a deposit with the same bank. Depending on market conditions, the interest offered on CDs varies from 1/8 to 1/2 of a percentage point below the rates in the deposit market.



Outstanding CDs now total more than $14 billion, or more than 7 per cent of the total Eurodollar pool of funds, and because there is an active secondary market, annual turnover approaches $40 billion. CDs can be purchased for almost any period of from one week to five years.

There are two types of CDs—tranche and tap. A tap, as the name implies, is turned on or off (available or not available) from a particular bank according to its own need for cash. The minimum tap is for $25,000, but the usual transaction is for $100,000.

Tranche CDs are initially sold for two to five years in relatively large amounts of $20 million to $40 million. But these are sold in denominations of $5,000 to $25,000—an amount more likely to appeal to individual investors.

The interest offered is a function of rates in the deposit market as well as the standing of the bank. In normal market conditions, CDs from the 10 biggest U.S. banks will yield investors some 10 basis points (one-tenth of a percentage point) below the large U.S. regional banks and some 15 basis points below the smaller U. S. regional banks, leading U.K. and Canadian banks and the bigger Continental banks. CDs issued by Japanese banks typically yield investors 2[illegible] 50 basis points more than the top U.S. banks offer.

• **Floating-Rate Notes:** [illegible] are five to seven-year [illegible] by banks in denomination[illegible] $1,000 and designed to appe[illegible] small investors. Depending [illegible] conditions of each issue, [illegible] notes may legally be [illegible] deposits or may be subo[illegible] to them. In other cases, [illegible] may be capital notes, in [illegible] case they become part of [illegible] capital of the bank along [illegible] the stock and long-term de[illegible] has sold.

The interest paid on [illegible] notes is tied to the six-[illegible] deposit market. The typical [illegible] offers small investors a [illegible] of a point over the six-[illegible] rate and the rate is adju[illegible] twice a year. As the six-[illegible] deposit rate itself is a refl[illegible] of economic conditions and [illegible] rate of inflation, floating[illegible] notes are perceived to be [illegible] tion-indexed securities.

An active secondary-marke[illegible] floating-rate notes also [illegible] which makes these notes [illegible] highly liquid investment.

• **Notes:** These are fi[illegible] seven-year debt instrument[illegible] by banks, corporations or [illegible] agencies with a fixed rate of [illegible] terest. They are sold in minim[illegible] amounts of $1,000 and an act[illegible] secondary market exists. As [illegible] any fixed-rate investment, [illegible] price of these securities [illegible] tuates as interest rates chan[illegible] The price goes down as inte[illegible] rates go up, and the price [illegible] up as interest rates go do[illegible] bringing the yield (the inte[illegible] income divided by the cur[illegible] price) into line with the chan[illegible] interest-rate environment.

• **Debentures:** These are [illegible] 15-year debt instruments [illegible] sold in $1,000 denominatio[illegible] whose marketability has [illegible] severely hampered by the [illegible] of inflation. Convertible bo[illegible] offer investors the option to [illegible] their bonds to buy comm[illegible] stock of the same firm. In [illegible] there are some $50 billion [illegible] bonds and notes outstanding [illegible] the volume of new issues com[illegible] to the market is now running [illegible] an annual rate of more th[illegible] $14 million a year.

EUROMARKET SPECIAL REPORT

Measuring the Banks Leading in Eurobonds

In all, 231 issues were marketed during the first three quarters of the year, totaling the equivalent of $10.3 billion.

U.S. dollars accounted for 61 per cent of the total. DM-denominated bonds accounted for 22 per cent of the volume, and Canadian dollars took an 11-per-cent share of the market.

PARIS (IHT).—The two measures of establishing which banks are the leaders of the Eurobond market (see tables) show different results.

The first table gives credit to the lead manager while the second table gives full credit to all lead managers and all co-managers. Thus banks like Swiss Bank Corp. and Kredietbank ... were lead managers of very few issues so far this year, but are in the top 10 of managers and co-managers because of their very active participation in the syndicates managing banks put together to market a loan.

It is exactly the opposite story for Morgan Stanley, which recaptured its second-place standing from 1975 among lead managers. This position this year was due largely to the emergence of the Canadian-dollar market, which accounted for eight of the 18 issues Morgan brought to market. By contrast, Morgan participated as a co-manager in only two issues, dropping it to ... place on the combined manager and co-manager list. Morgan's explanation for this is that it invites banks to co-manage its issues only at the insistence of the borrower and that it therefore has no reciprocity to offer banks who invite it into their issues. The opinion of its competitors is that if Morgan is not invited to lead manage an issue it would prefer not to be involved in it at all.

The Leader

Deutsche Bank was the leader in both measures, due primarily to its dominance in the deutsche mark sector of the bond market and the particularly heavy flow of large issues for international entities such as the World Bank.

Credit Suisse White Weld, establishing a near monopoly on the floating-rate loan market, and accounting for about 12 per cent of total volume in the dollar sector, jumped three places from last year's standing, displacing Westdeutsche Landesbank and Kredietbank Luxembourgeoise.

Kredietbank's absence from this year's managers' list reflects the sharp decline in investor demand for issues denominated in Units of Account, the bank's specialty, as well as the paucity of Scandinavian borrowers, its traditional clients. The bank maintains that its position as the leading bank among managers and co-managers (down from the No. 1 spot a year ago) shows it is still very active in the market. But it says that its investors have not increased the volume of their purchases in proportion to the enormous expansion of the market.

The bank's credit for co-managing $2.64 billion worth of issues is almost equal to the $2.5 billion it co-managed in last year's first place.

Moving Up

Warburg moved up sharply from last year to fourth place from No. 15, an advance it attributes both to the increased institutional demand for Eurobonds and a continuing drive to expand its placing power. Its standing in the managers' and co-managers' table is the first time since 1973 that it cracked the top 10.

Wood Gundy jumped to eighth from 16 last year, thanks to the Canadian-dollar sector. Of the 32 Canadian-dollar issues floated so far this year, Wood Gundy managed six. Orion Bank also owed its addition to the table to its activity in the Canadian sector.

Hambros, in 11th spot among lead managers, makes its first appearance in the top 15 since the late 1960s. Acknowledging "a strong connection" to Mideast money, Hamish Melville, a director of the bank, attributes its resurgence to a reorganization in the last two years of its banking and new-issues department and a "beefing up" of its placing power. He says the bank is "concentrating harder on traditional clients and is becoming more aggressive."

Hambros does not run "huge secondary market positions," Mr. Melville says, "but we do trade in our own issues and those we co-manage. It's not necessary to have a large secondary-market operation to succeed in the primary market," he adds.

The only other significant changes among managers and co-managers ... the advance of Amsterdam-Rotterdam Bank to eighth place from 12 a year ago and the decline of Dresdner Bank and Sté. Générale de Banque out of the top 10 (sixth and eighth, respectively, last year).

In all, 231 issues were marketed during the first three quarters of the year, totaling the equivalent of $10.3 billion.

U.S. dollars accounted for 61 per cent of the total. DM-denominated bonds accounted for 22 per cent of the volume, and Canadian dollars took an 11-per-cent share of the market.

The only new currencies to make a debut so far this year were the Australian dollar and the United Arab Emirates dirham.

LEAD MANAGERS OF EUROBONDS FIRST NINE MONTHS OF 1976

RANK 76	RANK 75	BANK	DOLLAR NO.	DOLLAR VALUE	DM NO.	DM VALUE	CAN. DOLLAR NO.	CAN. DOLLAR VALUE	OTHER NO.	OTHER VALUE	TOTAL U.S. DOLLARS EQUIVLENT NO.	TOTAL U.S. DOLLARS EQUIVLENT VALUE
1.	1.	DEUTSCHE	7	1,382.0	21	3,025.0	–	–	–	–	28	2,578.2
2.	2.	MORGAN	10	435.0	–	–	8	425.0	–	–	18	865.3
3.	6.	CREDIT SUISSE WHITE WELD	14	720.0	–	–	1	20.0	–	–	15	740.6
4.	15.	WARBURG	12	678.0	–	–	1	50.0	–	–	13	729.5
5.	9.	UNION BANK OF SWITZERLAND	5	463.0	–	–	1	50.0	–	–	6	494.0
6.	3.	WESTDEUTSCHE LANDESBANK	3	80.0	12	980.0	–	–	–	–	15	464.3
7.	7.	COMMERZBANK	2	105.0	6	475.0	–	–	–	–	8	329.3
8.	5.	DRESDNER		–	9	820.0	–	–	–	–	9	321.4
9.	16.	WOOD GUNDY	3	110.0	–	–	6	130.0	–	–	9	242.7
10.	18.	ORION	2	70.0	–	–	5	170.0	–	–	7	242.0
11.	*	HAMBROS	5	235.0	–	–	–	–	–	–	5	235.0
12.	8.	KIDDER PEABODY	6	170.0	–	–	1	30.0	–	–	7	200.0
13.	10.	BANQUE NATIONALE DE PARIS	3	180.0	–	–	–	–	–	–	3	180.0
14.	14.	FIRST BOSTON	4	125.0	–	–	1	20.0	2	(UA) 27	7	179.4
15.	*	KUHN LOEB	3	120.0	–	–	1	50.0	–	–	3	171.0

*Not in top 20

SOURCE: INTERNATIONAL HERALD TRIBUNE.

LEAD MANAGERS AND CO-MANAGERS OF EUROBONDS FIRST NINE MONTHS OF 1976

RANK 76	RANK 75	BANK	DOLLAR NO.	DOLLAR VALUE	DM NO.	DM VALUE	CAN. DOLLAR NO.	CAN. DOLLAR VALUE	OTHER NO.	OTHER VALUE	TOTAL U.S. DOLLAR EQUIVLENT NO.	TOTAL U.S. DOLLAR EQUIVLENT VALUE
1.	2.	DEUTSCHE	28	2,460	35	4,260	10	315	3 1	200 Dfls 20 UA	77	4,559
2.	3.	CREDIT SUISSE WHITE WELD	56	3,813	5	420	14	445	2 1	125 Dfls 125 FF	78	4,504.6
3.	5.	SWISS BANK CORP.	49	3,468	10	925	14	525	2	150 Dfls	75	4,417.0
4.	4.	UNION BANK OF SWITZERLAND	51	3,332	13	1165	12	440	1	75 Dfls	77	4,244.
5.	1.	KREDIETBANK LUXEMBOURG.	37	1,810	14	1,265	3	85	5 5 1	340 Dfls 7 UA 125 FF	65	2,642.2
6.	7.	WESTDEUTSCHE LANDESBANK	25	1,205	26	2,760	5	190	1 5	75 Dfls 77 UA	62	2,602.0
7.	10.	PARIBAS	26	2,198	4	340	4	140	1 1 1	40 Dfls 10 UA 125 FF	37	2,528.4
8.	12.	AMSTERDAM-ROTTERDAM BANK	19	1,997	3	225	2	70	12	875 Dfls	36	2,501.
9.	9.	COMMERZBANK	16	1,220	21	2,305	4	115	1 1	20 UA 15 A$	43	2,323.4
10.	11.	WARBURG	26	1,863	5	470	6	200			37	2,249.2
11.	6.	DRESDNER	16	788	23	3,150	2	70	2 1	40 UA 125 FF	44	2,172.1
12.	8.	STE GENERALE DE BANQUE	22	1,428			8	215	3 1	47 UA 125 FF	34	1,731.0
13.	15.	STE GENERAL	16	1,350	4	340	1	50	2 1	40 Dfls 125 FF	24	1,612.0
14.	16.	BANQUE NATIONALE DE PARIS	21	1,220	4	290	1	50	1 1	75 Dfls 125 FF	28	1,440.1
15.	*	WOOD GUNDY	12	680	1	100	18	674			31	1,404.4

*Not in top 20.

SOURCE: INTERNATIONAL HERALD TRIBUNE.

ISSUES - IN MILLIONS

EUROMARKET SPECIAL REPORT

On Mounting Loans to the Third World

(Continued from Page 7.)

have to write off as a total loss the entire loan. This would create problems for the banks, many of which already have their hands full of doubtful loans to real estate investment trusts at home and significant holdings of municipal bonds on which the city of New York has declared a moratorium.

Although the pace of lending to the LDCs has slowed, the banks are, in fact, continuing to arrange credits because they have plenty of cash and little loan demand from their traditional commercial clients.

So far this year, these countries have borrowed some $7.1 billion in the Eurocredit market—34 per cent of the total loans arranged during the first nine months. This is down from the 39-per-cent share of the market these countries accounted for in all of last year but well over the 26.5-per-cent market share in 1973 through 1975.

Nevertheless, it is clear that the banks are less and less eager to make unattached loans to finance a balance-of-payments deficit. The current fashion is to try to tie a loan to a project, one whose income can be estimated and against which the banks can secure their loan.

In addition, the commercial banks are eager to try to latch onto the coattails of the World Bank as a security for their loans. To date, no borrower has ever defaulted on a loan to the World Bank—the damage from doing so would far outweigh the gains, since all credit from that institution to the defaulting country would be halted.

A First

The first such co-financing with the World Bank was arranged last December in Brazil. The private banks put up two loans totaling $55 million—one for five years and the second for eight years—while the World Bank lent the steel industry project $95 million for 15 years.

The payment of interest and amortization on the commercial bank loans are channeled through the World Bank.

Another idea that bankers are eager to see developed is a proposal that capital flows be guaranteed by international institutions such as the World Bank or the International Monetary Fund. The World Bank has, in fact, the authority in its statutes to make such guarantees. But officials of the bank fear that using this authority would reduce the funds available for direct lending. That is, assets of the bank which might otherwise be deployed in supporting a specific project would be unemployable if they had to be set aside as reserves backing up a guarantee.

The current view at the World Bank is that such an arrangement is feasible but must await an increase in its own capital base—one of sufficient scale to give it the "elbow room" to use its assets in this way. The bank is seeking such an increase from its member governments, but the United States has said that it strongly opposes it. The dispute, insiders hope, is nothing more than a personality clash between bank president Robert McNamara and U.S. Treasury Secretary William Simon which will disappear when the Carter administration takes over in January.

Meanwhile, the Development Committee of the bank is studying the subject of multilateral guarantees and the proposal for an international investment trust that would work alongside commercial banks in making loans to developing countries.

The developing countries are expected to be running current-account deficits of at least $20 billion a year through 1980—an amount far exceeding the capacity of official financing sources such as the World Bank, the IMF and the regional development agencies. Thus, the commercial banks will have to go on playing an important role if these needs are to be met. But the bankers are saying that they need greater security.

Co-financing alongside the World Bank is an important development in finding a solution to the security problem. The commercial banks benefit from the project-assessment resources of the World Bank and the volume of credit available to finance World Bank projects is increased.

The bank reported that in fiscal 1976 co-financing in eastern Africa amounted to about $148 million for 13 projects. The bank itself put up $254 million. The bank noted: "The greatest part of this [private financing] was provided by Arab oil-exporting countries, which are becoming increasingly active in project lending, and are making use of bank-project identification and appraisals as they expand their institutional capabilities for development assistance."

In western Africa, the bank reported that private co-financers from Britain, Canada, France, West Germany, Kuwait and Saudi Arabia were involved in 16 projects. These private lenders put up $407 million, 1 1/2 times more than the $260 million put up by official institutions.

However, commercial banks were involved in only one such operation, in Brazil. World Bank officials say several others are "in the works" with "one or two nearing completion."

For the commercial banks, there are several problems involved in working alongside the World Bank. Among these is the long delay between the time the World Bank begins to study a proposed project and the time actual work begins. (In addition, the concept barely advances what the commercial banks are already doing through their project finance packages. Thus, it is open to question whether such a program would actually increase the flow of funds to needy states.)

Another difficulty is that if a co-financing loan with the World Bank were to have a legal security superior to other Euroloans commercial banks had made to a particular government, these other Euroloans could automatically fall into default. It is standard practice when arranging a Euroloan to insert wording which basically says that the loan is in default if its security is made inferior to any other debt of the same nature.

Lacking official guarantees, banks are eager to make project loans. But there is considerable ambiguity if not misunderstanding over the definition of what such a loan is. The term "project loan" is often used to cover a loan to a government when the agreement merely says that the proceeds will finance the government's economic programs.

Embarrassed

One particularly embarrassing "project loan" was the $150 million that Zambia arranged in 1973 in two parts. Neither loan agreement named a specific purpose for the use of the funds, although bankers understood that the money would be used to develop the country's mineral resources. In fact, immediately after the borrowing, Zambia retired bonds it had issued when it partially nationalized the copper industry—freeing its hands in managing this key industry. The embarrassment to the banks was acute, as the multinational corporations operating the copper

(Continued on Page 15.)

PUBLICLY-ANNOUNCED NEW EURO-CURRENCY BANK CREDITS

	1970	1971	1972	1973	1974	1975	JAN-SEP 1976
ARGENTINA	41.0	185.0	20.0	87.3	398.6	72.4	600.0
BAHAMAS	–	–	–	17.2	–	–	–
BOLIVIA	–	–	–	–	56.5	110.1	155.0
BRAZIL	86.6	256.9	579.0	739.6	1672.1	2152.3	1772.1
CHILE	–	–	–	–	–	–	170.0
COLOMBIA	14.3	–	90.0	170.0	98.0	121.5	100.0
COSTA RICA	–	–	–	11.0	10.0	46.0	40.0
DOMINICAN REPUBLIC	–	–	4.0	–	20.0	–	25.0
EL SALVADOR	–	–	–	–	50.0	45.0	7.2
GUATEMALA	–	–	–	–	–	15.0	–
GUYANA	–	–	–	12.5	15.0	24.0	4.0
HONDURAS	–	–	–	–	–	–	10.8
JAMAICA	–	–	10.0	35.6	95.0	103.0	15.0
MEXICO	56.0	295.0	196.5	1587.8	948.4	2310.6	1181.2
NICARAGUA	–	10.0	15.0	92.0	21.4	85.0	–
PANAMA	30.0	16.0	40.0	191.0	77.0	105.0	116.8
PERU	–	–	138.7	433.6	442.5	333.6	65.0
TRINIDAD-TOBAGO	–	–	–	42.0	10.5	5.1	81.5
URUGUAY	–	–	–	–	–	130.0	26.5
REGIONAL DEVELOPMENT ORGS.	–	10.0	–	–	24.0	–	37.0
BAHRAIN	–	–	–	15.0	–	–	–
CAMEROON	–	–	–	–	10.0	–	32.0
EGYPT	–	–	–	–	230.0	–	100.0
GUINEA	–	–	40.0	–	–	–	–
ISRAEL	–	–	10.0	–	–	–	–
IVORY COAST	–	22.0	–	95.0	63.0	50.0	124.5
JORDAN	–	–	–	–	–	–	12.0
KENYA	–	–	15.0	–	–	–	30.0
LEBANON	–	–	–	20.0	93.1	28.5	–
MALAWI	–	–	–	5.3	–	–	–
MAURITANIA	–	8.0	–	–	–	–	–
MOROCCO	–	–	–	–	–	200.0	346.0
NIGER	–	–	–	–	–	–	15.0
OMAN	–	–	–	35.0	14.0	64.1	–
SENEGAL	–	–	–	70.0	20.0	20.0	20.0
SUDAN	–	–	–	3.4	220.0	36.8	7.0
SWAZILAND	–	–	3.2	–	–	–	–
TURKEY	–	–	–	20.3	–	170.0	170.0
ZAMBIA	–	–	25.0	150.0	–	160.0	–
ZAIRE	25.0	30.0	107.0	223.0	71.6	–	–
REGIONAL DEVELOPMENT ORGS.	–	–	–	–	–	65.0	40.0
BRUNEI	–	–	27.5	–	–	–	–
HONG KONG	–	–	10.0	72.5	67.1	533.4	–
INDIA	–	–	–	10.0	–	–	–
SOUTH KOREA	25.0	49.5	100.0	205.0	133.5	347.2	394.2
MALAYSIA	–	24.0	50.0	–	140.0	425.0	206.8
NEW CALEDONIA	–	40.0	–	–	–	–	–
PAKISTAN	17.0	–	–	–	–	7.5	–
PHILIPPINES	5.0	–	50.0	187.0	843.5	363.1	871.6
SINGAPORE	–	–	–	–	24.2	–	42.0
TAIWAN	–	–	–	–	297.0	134.7	168.5
THAILAND	–	–	–	–	9.7	–	100.0
TOTAL	299.9	946.4	1530.9	4531.1	6275.7	8263.9	7070.0

SOURCE: MORGAN GUARANTY.

IN MILLIONS OF DOLLARS

ome Bankers Have a Serious Fear of Being Overextended

inued fr... preceding page)
ry were also clients of the

rue project loan is one in
payment is tied to the
t's performance, disburse-
are made as the project
esses and repayment is gear-
the revenues the project
arn.

umber of such project loans
been concentrated in the ex-
ve and processing industries
others focus on financing
t substitutes such as fertil-
lants or ships.

many so-called project
are for infrastructure—
portation and utilities—
do not directly earn the
n exchange needed to repay
oan.

en the uncertainty bankers
about continuing to make
to developing countries, it
t surprising that the condi-
imposed on such loans have
ened significantly.

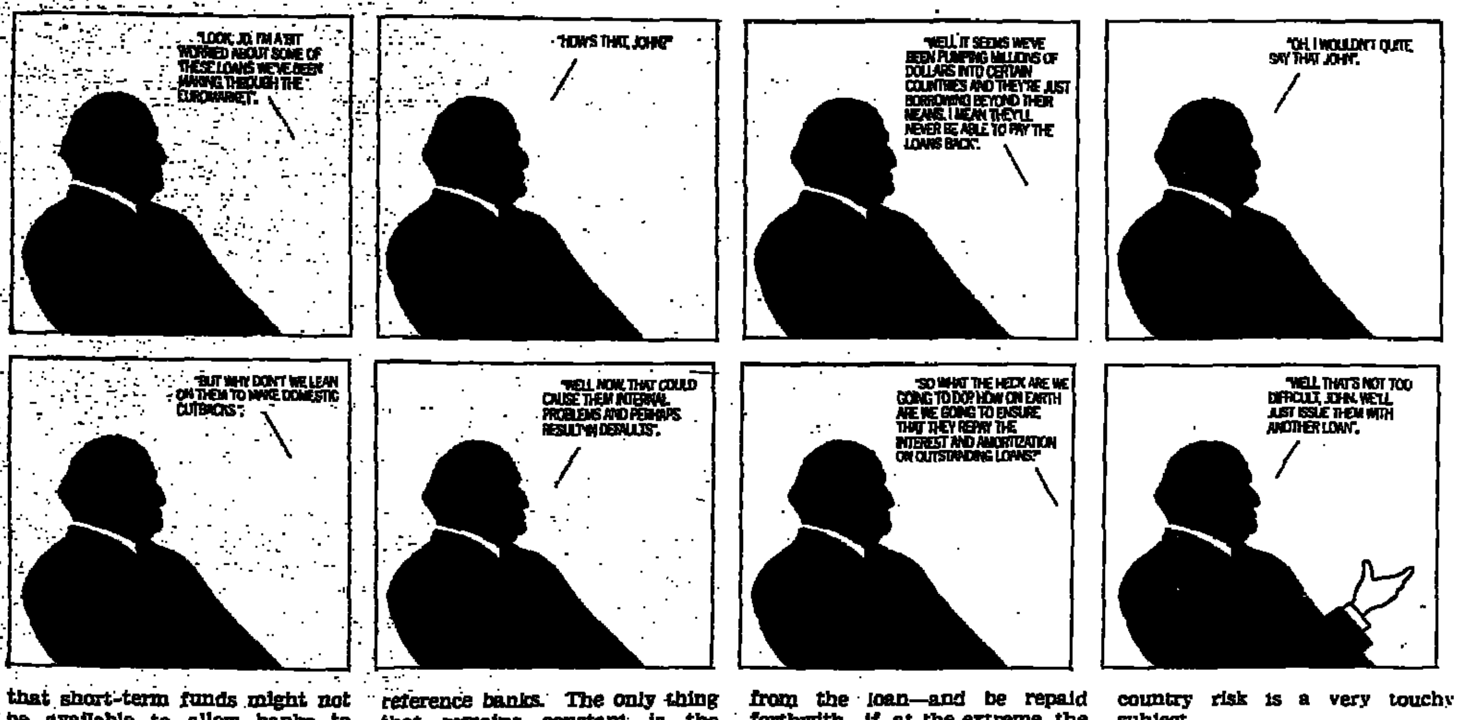
rough 1973, the Eurocurrency
to developing countries car-
maturities of up to 15 years,
grace periods extending up to
years, during which time only
est was paid and there was
mortization of the debt. The
est rate in many cases was
than 1 percentage point over
London interbank offered rate
OR).

Alteration

t the oil-price rise at the end
973 and the mid-1974 Euro-
ing crisis following the col-
of Herstatt dramatically al-
the credit standing of the
loping countries and the abil-
f many banks to stay in the
ness of making syndicated
s.

the wake of the multifaceted
s that engulfed the Euro-
kets in 1974, the average ma-
y of loans to developing coun-
shrank to five years and
ads climbed dramatically to
e than 2 points over LIBOR.
this did not reflect the true
of the loans, as commissions
participating fees, paid when
loan was signed, raised the
ctive charge to more than 3
cent.

egal practices changed, too.
ere earlier loan agreements
e fairly simple 10 to 20-page
tracts, greater complexity was
ced by new conditions in the
omarket, such as the multi-
ed LIBOR and the danger



that short-term funds might not be available to allow banks to "roll over" their loan commitments.

European bankers express dismay that the practice of U.S. lawyers to anticipate and resolve every contingency in writing loan agreements has resulted in these agreements' now running to over 100 pages.

For the lending banks, the question of security—that the loan will be repaid and interest payments be made on time—is only one of their problems.

Roll-Over

Another major concern is their own exposure in making medium-term commitments to finance a loan based on deposits of uncertain duration or deposits they buy for periods of 3, 6 or 12 months. While the loan itself is for a fixed period, the banks' funding of the loan is usually periodically renewed, or "rolled over." To cover themselves in the likely event that their own cost of funds at the roll-over date will be different from the cost at the time the loan was entered into, the interest on the loan is adjusted at regular intervals.

In a typical loan, the basic interest charge is adjusted every six months. It is based on the LIBOR as determined by several reference banks. The only thing that remains constant is the spread the borrower pays over LIBOR, which is agreed to at the outset. The use of several reference banks came into use following the Herstatt crisis, when LIBOR, which until then had been a single rate for almost all banks, became a multi-tiered rate. The 30 to 40 largest banks in the world borrowed at what was a "prime" LIBOR rate and the other banks, depending on size and nationality, borrowed at rates scaled up from that level.

The smaller banks thus had to refinance their loans at a rate over the LIBOR quoted to the borrower and saw their profit margins on the loans erode.

Today, tiering of the LIBOR has virtually ceased. But the trauma of that experience remains and several banks of different size and nationality are still often written into the loan agreement as determining what the LIBOR is.

Withdrawal

In addition, the typical loan agreement today allows a participating bank to switch the currency of the loan if it cannot refinance itself in the original currency at the roll-over date, or it allows the bank to withdraw from the loan—and be repaid forthwith—if, at the extreme, the bank cannot refund itself in the interbank market.

A major problem for the banks is determining how much money they want to lend to borrowers in a particular country. Assessing country risk is a very touchy subject.

For one thing, unlike the situation when a bank is ascertaining how much it is willing to lend to a commercial client, there are no books, no profit and loss statement, no cash-flow charts to guide the bankers. In what is obviously a much more arbitrary manner, banks try to determine the political, social and economic factors likely to affect the country's ability to service its debt and repay the loan.

Having done this, a bank then sets a limit on its exposure—how much it is willing to lend to a particular nation, combining loans to both the public and the private sector. This is subject to regular review and is not necessarily as rigid as it might sound.

But self-imposed country limits can become political dynamite when the word begins to spread that banks are no longer willing to lend to a particular country.

Guido Carli, former governor of the Bank of Italy, said in a recent speech that "the rating of credits according to the country of the borrower and their allocation according to the presumed degree of solvency has caused controversy in my country. The first news of this practice became public in September, 1974; the rating given to Italy occasioned considerable alarm both in the country itself and abroad and it cannot be ruled out that this added momentum to the wave of deposit withdrawals from Italian banks which broke out in the summer of that year."

EUROMARKET SPECIAL REPORT

Switzerland's Attitude—Conservatism

PARIS (IHT).—Conservatism, for the Swiss, is a badge of courage.

They would prefer to be late—and right—when moving into new areas rather than be first to jump on a bandwagon—and risk being wrong.

One of the best examples of this attitude is their cautious approach to the Eurocurrency market, participating in syndicated bank loans, which they disdained until very recently.

Admittedly, there were occasional participations in roll-over credits when an important client of one of the banks was looking for funds. But basically, says Guido Condrau, a vice-president of Swiss Bank Corp., "we didn't like roll-overs."

"The resources of the bank are based on Swiss francs and roll-overs are mostly in dollars. We had a fear of undertaking an engagement for five years or more" and were repelled by "having refinancing for sure for only six months" via the inter-bank market, he explains.

The change in attitude, he says, was a result of the crisis that followed the collapse of Bankhaus Herstatt in mid-1974. Investors suddenly became very quality conscious about which banks they placed their money with and the dollars deposited with the big Swiss banks "increased *tremendously*."

This swell in dollar deposits propelled the bank "to look for new possibilities to invest these deposits. We didn't want to simply lend to other banks and we certainly didn't want to turn down accepting new deposits."

Moves Slowly

The bank moved *slowly*, however, only after lengthy study showed that "part of these short-term deposits did not leave the bank" but were continuously renewed, or rolled over.

Based on that knowledge, the bank early this year decided that it could safely commit itself to the syndicated loan market with*out having to* worry about its access to dollars.

"We became more involved in 1975," says Claude Lüthi, a UBS vice-president. Before then, he notes, "the margins weren't very high."

The "margin" or "spread" is set at the outset of a loan at a fixed amount over the inter-bank rate. In the early years, margins were as low as 3/8 of a percentage point. Today, they start at 1 1/4 points and go up to over 2, depending on the credit standing of the borrower.

The London inter-bank rate (LIBOR) is the base over which the margin is set and in typical loans the base rate is reset every six months. This means that banks *participating* in a loan can refinance their own portion every six months at the inter-bank rate and the spread gives them an assured profit over their own cost of funds.

'A Link'

Like most banks operating in the market, the Swiss admit to looking for "a link" before deciding to participate in a loan syndication. The typical link is that the borrowed funds will be used, at least in part, to finance the purchase of Swiss goods. (French and West German banks usually insist on such a link before they syndicate a loan.)

Another link might be to lend money to a country which could offer a lot of business either through potential export orders or directly to the bank itself. Commenting on the participation of UBS in the recent $1 billion Euroloan arranged for Venezuela, Mr. Lüthi said that "we think it is a country where a bank such as ours can profit from being seen as a co-manager of their first loan."

This is also the attitude of the U.S. banks. In many cases, the link for them, if not tied to U.S. exports or the "politics" of the bank, is that the dollar reserves of the borrowing countries are deposited in their banks.

In any case, Mr. Lüthi insists that his bank "never participates in a loan just because the margin is good."

Adolf Brandle, a senior vice-president at UBS, says that the bank takes a very conservative approach to the Eurocredit market. The loans on the bank's books "are a very small percentage of total loans."

Assets in Loans

At the end of last year, some 40 per cent of the bank's assets were in loans, about 18.6 billion Swiss francs (about $7.4 bil
Of this, 3.5 billion francs
term loans and the Eurocr
roll-overs represented the
portion, he said without
down the figure.

Bankers elsewhere regard
when the Swiss join a syn
they usually underwrite
tial portion—$50 million
quently cited. Of course,
not necessarily the amount
take on their books as they
find other banks wanting
such assets.

Without putting a figure
how much money they are
mitting to the market, Mr. Con
drau says that SBC
participate in 30 to 35 loan syn
dications a year.

Fixed Rates

He comments that "an
ing number" of SBC's parti
tions are on a fixed-rate
This suits the bank, he
because it does not
speculate on where interest
are headed and it suits the bor
rower who prefers to know at
outset what the cost of the
will be.

The fixed-rate financing
usually for five years
margin on this portion
loan is identical to the
the borrower has agreed to
for the floating portion.

"Lots of our customers
buy certificates of dep
(CDs)," Mr. Condrau
"and we realized we could
these to customers and use
funds to take fixed-rate par
pations."

CDs are sold in minim
amounts of $25,000 and
from three months to five
They are negotiable and
seeking their cash before
stated maturity can sell
the secondary market.
London, the CD market is
mated to be a $14-billion
funds.

On occasion, Mr. Condrau
SBC will invite very large
vestors to participate directly
a syndicated loan. The
individual participation
would be the same as
quired of participating
usually $1 million, something
million or more. This is
offered to very sophisticated
investors and SBC is under
obligation to buy this paper
from the investor if he
want his cash before maturity.

There is no secondary
in this paper and even
would be hard put to find
other bank willing to buy
participation.

London bankers, of course
welcome the increasing participa
tion of the Swiss banks in
syndicated loan market. "
very positive sign," says
gives us another place to

Another comments that
shows how short of loans
Swiss are. But it also is a
of confidence, reflecting
belief the market is here to
and that it is an orderly market."

Among the Swiss, only SBC
active in doing fixed-rate
ments. Other banks looking
this kind of financing
National Westminster and
deutsche Landesbank.

Mr. Brandle of UBS says
his bank "hasn't pushed
side of the business."

Crédit Suisse, which appears
be the least active of the
Swiss banks in this sector
market, says that "
there is a tendency for all
banks to participate increasingly
as the demand for loans
traditional clients is weak."

But a spokesman says that
UBS, Crédit Suisse does not
fixed-rate participations
borrowers are still hoping
further decline in interest
I don't see them ready to
at fixed rates."

Like most banks operating in the market, the Swiss admit to looking for 'a link' before deciding to participate in a loan syndication. The typical link is that the borrowed funds will be used, at least in part, to finance the purchase of Swiss goods.

Unease in Euromarkets

PARIS (IHT).—"There's a general feeling of unease," says a *senior international economist* commenting on the state of the Euromarket.

"We've moved into a world where liquidity is created by the private sector at the demand of the borrowers. If a country needs foreign exchange it can get it." The only constraint on borrowing, he moans, is the creditworthiness of the borrower.

But he, as well as numerous private bankers, worry about a sudden change in perception by commercial bankers about the credit standing of many nations now tapping the Euromarket. A sudden cutoff of credit availability could create the *crisis that lenders* and borrowers want to avoid.

Given the lack of up-to-date data about most borrowing nations—particularly the developing countries and the East European *Communist* states—many experts worry that banks could be panicked into making wrong credit moves on the basis of rumor or other misinformation.

The Communists give virtually no financial information to Western bankers and data on the developing states is woefully late. The just-published annual report of the World Bank, for example, which publishes the most complete information on the outstanding debt of these countries—relating total debt to foreign currency income—only goes through 1974.

Statistics

While the World Bank says it is working to speed up publication of these vital statistics, an expert on developing countries at one international organization maintains that "the figures are purposely late, so as not to panic the market." If the bank published current data, he added, it would open itself to accusations that it was ruining the credit access of its member states.

Amidst all this uncertainty, the Bank for International Settlements is now trying to create a central clearing house for debt information.

The aim is not to collect information on individual debtors but to try to put together the best possible figures on the debts individual countries have with commercial banks. At present, the BIS has figures from banks in nine reporting countries in Europe as well as Japan, Canada and the United States. But U.S. authorities are the only ones who collect data from their banks in other "offshore" centers such as Panama, the Bahamas, Hong Kong and Singapore.

"We don't have the faintest idea what the 'offshore' lending of non-U.S. banks is," an official at the BIS admits.

Thus, it is seeking to collect, on a voluntary basis, consolidated lending figures to countries from all major commercial banks and to get some maturity breakdown for each country to ascertain when the repayment of outstanding debt begins to get bunched up.

The central banks of the Group of Ten—Belgium-Luxembourg, Britain, Canada, France, Italy, Japan, the Netherlands, Sweden, the United States and West Germany—as well as Switzerland have agreed in principle to request this information from banks in their countries. A meeting scheduled for this month is expected to put the finishing touches on the terminology.

Still to be worked out, for example, is how to avoid double counting. One problem concerns reporting the loans of consortia, such as London-based Orion Bank, which is owned by Chase Manhattan, Royal Bank of Canada, National Westminster and Westdeutsche Landesbank. Which parent reports the figures, or do they report a total divided equally among them?

Compliance by the *commercial* banks will be voluntary, but officials expect that the banks' own desire to receive current data will prompt full cooperation. The first questionnaires are expected to go out to banks in December and the BIS expects to be able to circulate the results by March or April.

EUROMARKET SPECIAL REPORT

Problems on the Rising Debt of East Bloc Nations

(Continued from Page 7.)

...st year of $3.6 billion. Poland ...econd with a deficit of $3.3 ... followed by East Germany ... Hungary with about $1.1 bil... ...each. Czechoslovakia and ...ria were both about $700 ... in the red and Romania ... deficit of some $300 million. ... Organization for Economic ...eration and Development, ... groups the largest indus... ...ed states outside the Com... ...t bloc, reports that the 24 ...ber states accounted for the ... of the East European Com... ...deficit—$7.65 billion. ...re than half of last year's ...trade deficit, and some 65 ...ent of the deficit with the ...ko area, was with two coun... ...West Germany, which ...ed a $2.25 billion surplus ... Eastern Europe, and the ...ed States, with a surplus of ... billion.

...is estimated that about half ...he total indebtedness of the ...econ group is in Western ...rnment-guaranteed export ...its. The repayment of these ... is guaranteed by such bodies ...he U.K. Export Credit Guar... ...e Department, Cie Francaise ...urance pour le Commerce ...rieur and the Export-Import ...ks of Japan and the United ...es.

...he terms on these loans are ...lly quite favorable, with the ...rnment agencies in effect ...sidising export sales. Some of ...e credits are arranged di... ...y by the Western companies ...ing the sale, which would ...w in their own name from ...banks.

Owed to Banks

...he remainder is owed directly ... commercial banks, mostly ...ugh borrowings in the Euro... ...ket. Exactly how much is ...icult to estimate. Loans and ...its in domestic and foreign ...encies held by private West... ...banks are currently estimat... ...o total $35 billion. But some ...hese loans fall under the ex... ...t guarantee programs, so it ...ot possible to know how much ...osure banks have themselves. ...he latest total indicates a ... of $1.5 billion from the Bank ... International Settlements' ... quarter figure, which itself ...up ... billion from the end of ...

...ncluded in this gross amount ...e $5.9 billion that banks have ...t to Eastern Europe in the ... of syndicated medium-term ...credits since 1972.

...e biggest single chunk of ... debt belongs to the Soviet ...n, an estimated $18 billion, of ...h some $13 billion is said to ... actually been drawn and ...nd $5 billion in credits com... ...ted but as yet unused. ...his is the least worrisome as... ... of Comecon debt. Bankers ...mate about one-third of the ... is "self-liquidating." That ... the borrowed money was used ...levelop goods, particularly raw ...erials, whose sales abroad as... ... the hard-currency income ...ed to pay off the loans.

For Sale

... addition, the Soviet Union ... vast quantities of primary ...ucts that can be sold abroad, ...uding industrial diamonds and ... The Bank for International ...lements in Basel estimates ... gold sales by Communist ...ntries (mostly the Soviet ...n) totaled 150 tons in both ... and 1975, fetching between ... million and $800 million in ... year. However, the sharp ...ne in the metal's value on ...d bullion markets—from $168 ...unce in 1974 to around $120 ...unce currently—is consider... ... be an impediment to future ... Not only is the metal worth ... than it was, but heavy Rus... ...sales coming amid the reg... ... scheduled gold auctions ...he International Monetary ... could depress the price ...ier.

... basically, there are few ...ts who seriously question at ...t the ability and willing... ...of Moscow to pay its bills. ...Russians have established ...selves as top-class borrow... ...paying what is considered ...prime" rate whenever they ...he market.

...en the scale of their needs ...velop their natural resources ... as the consumer goods ...tries, they are expected to ...n big borrowers in the West ...me time.

... outlook for the other Eu... ...n members of Comecon ...er, is less rosy.

Poland

...nd, for example, has used ... of its borrowed funds to re... ...nd develop its industry, ex... ... to be able to sell its ...actured goods abroad for ...rd currency needed to pay ...bts. But the prolonged re... ... coupled now with the ... for a very slow recovery ...st of Western Europe raises ... questions about how ... the Poles will be able to ...broad.

...n the current poor out... ...or exports, the Poles will ...o step up their hard-cur... ...earnings from elsewhere ...that means cutting back ...trade deficit, particularly ...onsumer demand—food as ... manufactured products.

EURO-CURRENCY CREDITS TO COMMUNIST COUNTRIES							
	1970	1971	1972	1973	1974	1975	JAN-SEP. 1976
BULGARIA		–	25.0	115.0	160.0	125.0	215.0
CZECHOSLOVAKIA	–	–	–	–	–	60.0	–
CUBA	–	–	23.3	29.8	119.7	238.3	78.0
EAST GERMANY	–	–	35.0	–	12.0	280.3	215.0
HUNGARY	30.0	50.0	50.0	90.0	150.0	250.0	150.0
NORTH KOREA	–	–	–	64.7	67.4	–	–
POLAND	–	–	–	430.0	508.9	475.0	416.3
ROMANIA	7.7	5.0	–	–	–	–	–
U.S.S.R.	–	–	–	–	100.0	650.0	282.0
NORTH VIETNAM	–	–	–	–	–	38.4	–
COMECON	–	11.0	140.0	50.0	120.0	480.0	600.0
TOTAL	37.7	66.0	273.3	779.5	1238.0	2597.0	1956.3

SOURCE: MORGAN GUARANTY.

IN MILLIONS OF DOLLARS

This is the point at which the optimists in the West separate from the pessimists. The former believe that Poland will succeed in cutting domestic demand; the latter, pointing to the mid-June riots when the government tried to raise food prices, believe that there is much less room for maneuver than the optimists see in the government's ability to cut consumer demand.

The typical view of bankers, as expressed by a U.K.-based executive at a large U.S. bank, is: "Never underestimate the ability of Comecon countries to reallocate resources with the stroke of a pen."

What is critical from the bankers' point of view, says Lawrence Brainard, a vice-president at *Chase Manhattan Bank*, "is not a number like the debt-service ratio but the creditworthiness of the borrower."

A Consensus

Pointing out that Italy was effectively shut out of the Euromarkets in 1974 when 10 per cent of its total foreign-exchange income was used to repay the principal and interest on outstanding debt, Mr. Brainard notes that the consensus estimates for Poland's debt-service ratio of 20 to 22 per cent are not worrisome. "What you look for are what the prospects for growth are and the ability to service debt.

"Eastern Europe's borrowings have largely gone into capital investments. By contrast, Italy and Britain used a lot of their Euromarket borrowings to support their currencies and have no capital assets to show for that borrowing."

In addition, he says, the debt totals for almost all countries is "sky high. Brazil owed $22 billion, Mexico about $17 billion and all of Latin America some $65 billion at the end of last year. We really don't know what this means, there is no historic yardstick. We have been thinking in terms of $1 billion, that that was high. But with inflation, the rise in oil prices and the size of the balance-of-payments deficits there's no meaningful way to know what is high or what is low. My impression is that the East European debt is not too high."

As for Poland, he says that "the Poles themselves feel they have gone as far as possible. The focus there is to finish what has been started and to postpone new projects. I see slower growth for imports in 1977 and a dramatic slowing of domestic growth. But there is nothing to suggest that the problem is out of hand or that they face a credit crunch.

The Danger

"The real danger," he adds, "is that they will cut too much and we'll see a sharp slowdown in Western imports" that will retard the recovery in Western Europe.

(Indeed, one of the main reasons Comecon debt has grown so fast is that East-bloc demand for capital goods has been one of the strongest components keeping this industry working during the recession, particularly in West Germany.)

Others like Prof. Portes disagree. He seriously questions the government's ability to effect the necessary cutbacks without triggering new riots. And he argues that the standard response, that at worst Poland can finance whatever credit crunch it finds itself in by turning to aid from the Soviet Union, is an outdated assumption.

$7 Billion

"The numbers are too large," he says. "Poland's debt is already over $7 billion" and by 1980, when the grace periods on loans have elapsed, Poland will be needing "around $2 billion a year to service its debt. That's too big for the Soviet Union, which has its own debt to finance."

More to the point, "the Soviet Union is already concerned with Poland's increased relations with the West and its attempt to maintain an independent stand vis-à-vis Moscow. One way to make sure the Poles don't go too far is to let them get into trouble. Then Russia won't have to impose any constraints on Poland's relations with the West, the Western bankers will do that for them," he explains.

"If the Soviet Union were really concerned, it would be more gracious on oil prices" it charges its allies. Although still below the world level, the price of Soviet oil to Comecon is set at a three-year moving average, which means the cost in 1977 will be the average of the world price in the years 1975-76.

The other members of Comecon also have substantial debts. Chase Manhattan estimates that East Germany's debts total $4.9 billion, Hungary is said to owe $3.3 billion, Romania $2.8 billion, Bulgaria $2.4 billion, Czechoslovakia $1.8 billion and various Comecon institutions about $2.6 billion.

Chase Estimate

After subtracting deposits these countries have with Western banks, Chase estimates that Bulgaria's debt is 3.1 times the volume of its hard-currency export earnings last year. That is, it would take three years' export earnings to pay the debt. The ratio for Poland is 2, East Germany is 1.9, Hungary is 1.7, the Soviet Union is 1.3 and Romania is 1.1. Czechoslovakia at 0.8 is the only country whose debt does not yet exceed its annual level of hard-currency earnings.

By contrast, Chase notes that the total debt for Latin America is $65 billion, also 1.5 times the area's export earnings. Within that grouping, Mexico has debts estimated at $16.6 billion, or 5.7 times its export earnings and Brazil, with debts of $22 billion, has a ratio of 2.5.

"The point is that we have no standard" to evaluate what is excessive debt "because the context of world borrowing has changed."

Prof. Portes considers that in addition to Poland, Romania and Bulgaria "are in serious trouble. Hungary," he adds, "has a considerable problem." East Germany, he said, is less worrisome. "If they weren't Germans people would be concerned."

Prof. Portes believes that the Soviet Union is probably likely to bail out Bulgaria if it comes to that. While the debt is large relative to Bulgaria's resources, the actual numbers are small. In addition, Bulgaria is the most closely tied member of Comecon to the Soviet Union, politically and economically, and the Russians do not have to worry about Bulgaria seeking to forge closer ties to the West, he says.

He puts Romania and Hungary in the same league as Poland regarding the likelihood of the Soviet Union coming to their assistance.

Noting that bankers are "terribly sanguine" about lending to Eastern Europe, Prof. Portes observes that "either they don't know what they're doing or the individual (exposure) limits are so low that it doesn't matter.

"But in the aggregate, the amounts are absurdly large. There is no *justification* for it unless you can argue that there are political advantages for the West, which I don't see."

He estimates that the banks go on lending because "they didn't realize until too late how large the aggregate numbers were. And once they realized, they saw they were on the hook and had to keep on lending" to keep the borrowers afloat.

No Validity

"The reason banks got started in the first place is no longer valid," he says. "It was assumed that the Communists were conservative bankers and that officials could control domestic economies come what may to generate enough hard-currency exports to keep up their payments."

He notes that with gross bank loans totaling around $25 billion and the average interest rate on loans probably in the area of 8 per cent, the East Europeans are paying close to $2 billion a year in interest to Western banks.

"Meanwhile, they are running substantial deficits" in their international trade.

At the same time, their indebtedness continues to climb. He estimates an increase of about $10 billion this year. According to the BIS figures, the debt was increasing at an annual rate of $8 billion in the first quarter and ... for the second quarter is expected to show a slowdown to an annual rate of $5 billion.

But since midyear, when the Bundesbank and the U.S. State Department started calling attention to the rapidly increasing debt of Comecon, there have been few attempts to organize syndicated Eurocurrency bank loans.

Instead, it would appear that the East Europeans are relying increasingly on shorter-term interbank loans. These three to six-month bank-to-bank loans are usually renewed when they fall due and are continually "rolled over."

"Syndicated loans are getting a little sticky," says Charles Schmidt of Morgan Guaranty Trust Co., "as banks get more selective." He notes that banks are less inclined to participate in syndicated loans without a specific purpose. Such loans, presumably to finance their balance-of-payments deficits, are not what the banks are looking for.

On the other hand, he notes that Comecon trade lines with Western banks are not being fully utilized. These credits, given for periods of up to three years depending on the nature of the goods being bought, cost between three-quarters and 1 1/4 percentage points over the interbank rate, depending on the maturity. But by borrowing in the interbank market, Comecon banks can arrange credits for three to six months at 1/16 to 1/8 over the interbank rate.

In addition, such interbank borrowing is less public and the Comecon banks can tap smaller Western banks which are less active in East-West finance and which are therefore more likely to be willing to increase their exposure to Comecon.

Another Estimate

Although there are no hard facts on how the Comecon debt is divided among Western banks, the Bundesbank estimated in June that West German banks held about 25 per cent of the total.

The Federal Reserve reports that U.S. banks and their foreign branches held $3 billion of East bloc debt at the end of June.

Banks in Britain are believed to hold substantial amounts, with the remainder divided among

(Continued on Page 21, Col. 5.)

In Shipping: 'It's the Year of the Titanic'

In some cases, banks are continuing to collect interest on the mortgage payments of laid-up tankers and have agreed to moratoria of up to three years on the amortization. In other cases, interest is not even being paid.

PARIS (IHT).—According to the Chinese 1976 is the Year of the Dragon—not far from how Eurobankers might label it, although they would probably prefer something more dramatic such as the Year of the Titanic.

That conveys not only the sinking feeling regarding repayment of large but as yet unestimated loans extended to real estate firms and the outlook on repayment from some of the less developed countries, but also the exposure to the shipping industry.

According to Norwegian shipbrokers Fearnley & Egers, the mortgage debt on world shipping totaled some $25 billion as of July. More than half—an estimated $12.8 billion—is out on very-large and ultra-large tankers, the most depressed sector of the shipping industry. And an estimated $4.3 billion was mortgage carried on tankers that are laid up earning no income.

This last figure is expected to grow considerably through the rest of this decade as charters expire and more independent tankers become unemployed. It is also the most meaningful figure for the Euromarket, where much of the tanker finance was arranged, as it represents the most vulnerable area of mortgage debt—tankers which are not earning the money to pay interest or repay principal.

Although it is widely assumed that banks hold about half of the total mortgage debt, Intertanko, a trade organization of independent tanker owners, said in a recent report that "attempts to obtain an accurate assessment of the proportion of tanker mortgage debt which is guaranteed or insured by governments have so far been unsuccessful."

Intertanko describes the crisis in the tanker market as "an appalling coincidence of factors. The oil embargo and the sudden steep increase in the price of oil merely brought out dramatically an underlying and growing structural imbalance, for which governments, shipbuilders, banks, oil companies and shipowners must all bear some responsibility."

The report blames the over-ordering of tonnage to the economic "euphoria" of the early 1970s, the "excessive" forecasts by the oil companies of future needs and the subsidized government credits to builders and buyers of ships.

"The final, crucial factor in this extraordinary situation," Intertanko said, "was the eagerness of some commercial banks to lend against inflated hull values without adequate guaranteed employment. The ship finance market had attracted a surfeit of banks, some of which did not properly understand the shipping industry and were ready to lend a high percentage of the delivered price of new buildings in the belief that hull values would go on rising.

"Since the tanker market was booming, these banks assumed that the ships they financed would as a matter of course obtain high quality employment from the major oil companies. By combining government-backed and commercial credit, owners were therefore in a position to obtain financing for 100 per cent and more of the cost of their vessels."

In some cases, banks are continuing to collect interest on the mortgage payments of laid-up tankers and have agreed to moratoria of up to three years on the amortization. In other cases, interest is not even being paid.

In some cases the banks have taken over the ships and have either sold them or found work for them.

"You do the relatively easy ones first," says one weary banker, "those where the asset of the ship is in excess of the debt. The problems arise where the assets are worth less than the debt on them."

Weakness

But this strategy has its weakness, he goes on. By selling the most valuable asset, one with presumably the greatest earning power, the chances are reduced that mortgage holders of the less valuable ships will ever get back the money they originally laid out. "Those who have protected themselves," the banker says, "limit the scope for the others."

However, each vessel is a separate entity treated as a separate company. And the mortgage holders on each vessel within one fleet are not the same. Thus, there is great temptation by the creditors of a tanker that can be sold to sell it and get out rather than try to use its earning power to pay not only its own debt but also the debt of other ships under the same flag.

The banks that put together the loan syndicates that financed the tankers' mortages are trying to keep the banks that put up the cash from bolting and selling what can be sold for whatever can be had. The dumping of saleable ships would depress the overall price for vessels and worsen the plight of other mortgage holders. But this obviously is not always possible, particularly with banks new to ship financing.

Some of them, in fact, have begun a legal battle in the United States that could have wide ramifications for the way all medium-term loans are syndicated in the Euromarket. The banks, rather small regional banks new to the Euromarket, had participated in loan syndications organized by European-American Banking Corp. for ships owned by the Colocotronis group.

The Suits

The suits charge that European-American concealed the true financial position of Colocotronis from the banks and misrepresented the arrangements for securing repayment of the principal amount.

United Virginia Bank, suing for $2.5 million, alleged that the charter income from the ship it financed was used to secure other loans made by European-American and that the income was overstated. City National Bank of Detroit, seeking the return of $3.6 million, claimed that the charter income in some of the ships it financed was "diverted" to pay other expenses and debts and that two tankers had no prospect of income at all when the loan was arranged.

Other banks are seeking equally small amounts: American National Bank & Trust Co. is suing for $1.5 million, First Penn[sylv]ania for $2.5 million, Fid[elity] Bank for $1.5 million, Repu[blic] National Bank for $3.8 mil[lion] and Texas Commerce Bank [for] $1.8 million.

The significance of the [con]test goes far beyond the su[ms] involved and challenges the m[eth]od by which loan syndicat[ions] are put together. Basically, [the] banks claim that the lead ba[nk] in soliciting the participation [of] other banks and circulating [a] "placement memorandum" [de]tailing the significant fina[ncial] data, is responsible for the a[c]curacy of the information.

In fact, the typical placem[ent] memorandum disavows such [re]sponsibility, stating that the le[ad] bank does not vouch for the a[c]curacy and completeness of [the] document.

The widespread market [be]lief is that the large banks wh[ich] regularly lead manage loan sy[n]dications are sharing cert[ain] pertinent data but that [each] bank invited to participate [in] the loan will do its own cr[edit] analysis before deciding to [go] in. But the well-known [fact] of how loans are syndicated [is] that a major bank announce[s it] is syndicating a loan and [the] hundreds of smaller banks, [anx]ious to put profit-earning a[ssets] on their books, jump in s[imply] on the basis of the reputa[tion] of the bank leading the loa[n].

The major banks decry [the] practice but they also know [that] the smaller banks do not h[ave] the technical staff to do a th[or]ough analysis of all the [loan] proposals that get circulated.

What the court case will [test] is whether in fact the lead ba[nk] is responsible for the accur[acy] of the data and whether, in [ef]fect, the "memorandum" is [a] solicitation to buy securities [and] subject to the securities law[s of] the countries where the banks [are] domiciled.

European bankers tend to [view] the issue cynically, asserting t[hat] the small banks got caught [in a] bad loan and are trying [to] "wriggle out" rather than "s[wal]low their medicine." In additi[on,] Europeans tend to view America[ns] as "court addicts" always ready [to] jump into a lawsuit.

But a banker at one of t[he] top U.S. banks admits priva[tely] that "the banks have been la[ying] off a lot of stuff with g[ross]ly inadequate credit investigation.

"In a highly competitive si[tua]tion," he says, "banks appear [to] win business (of lead manag[ing] syndicated loans) on the basi[s of] which bank asks the least a[wk]ward questions."

Whatever the outcome of [the] lawsuits, bankers already [ac]knowledge that they are "u[sing] sharper pencils on the docume[n]tation."

EUROMARKET SPECIAL REPORT

To Survive Means Being International (With Good Clients)

S (IHT).—After more than decade of watching from s the Eurobond market from liquidity crisis to y crisis, the major Wall investment banks are ing to jump into the s of trading bonds that ere once only interested ng.

matter of months, Morgan International, Goldman International, Blyth East Dillon, Loeb, Rhoades & nd Smith Barney will heir names to an already sive list of U.S. firms ing in the secondary mar-

e—White Weld, Kidder ly, Merrill Lynch—are me traders of Eurobonds, such as Salomon Brothly got into the market this

all of them appear to be on the same impulse: To e means being interna- And to make it in the means having the clients y the securities that are sold.

e upon a time, it was suf- to have entree to cor- boardrooms and the how to market a public But today, access to bor- is increasingly a function bank's "placing power"—in of the size of loans it of- o arrange and the choice arkets it can offer cor- customers.

Wedding Needs

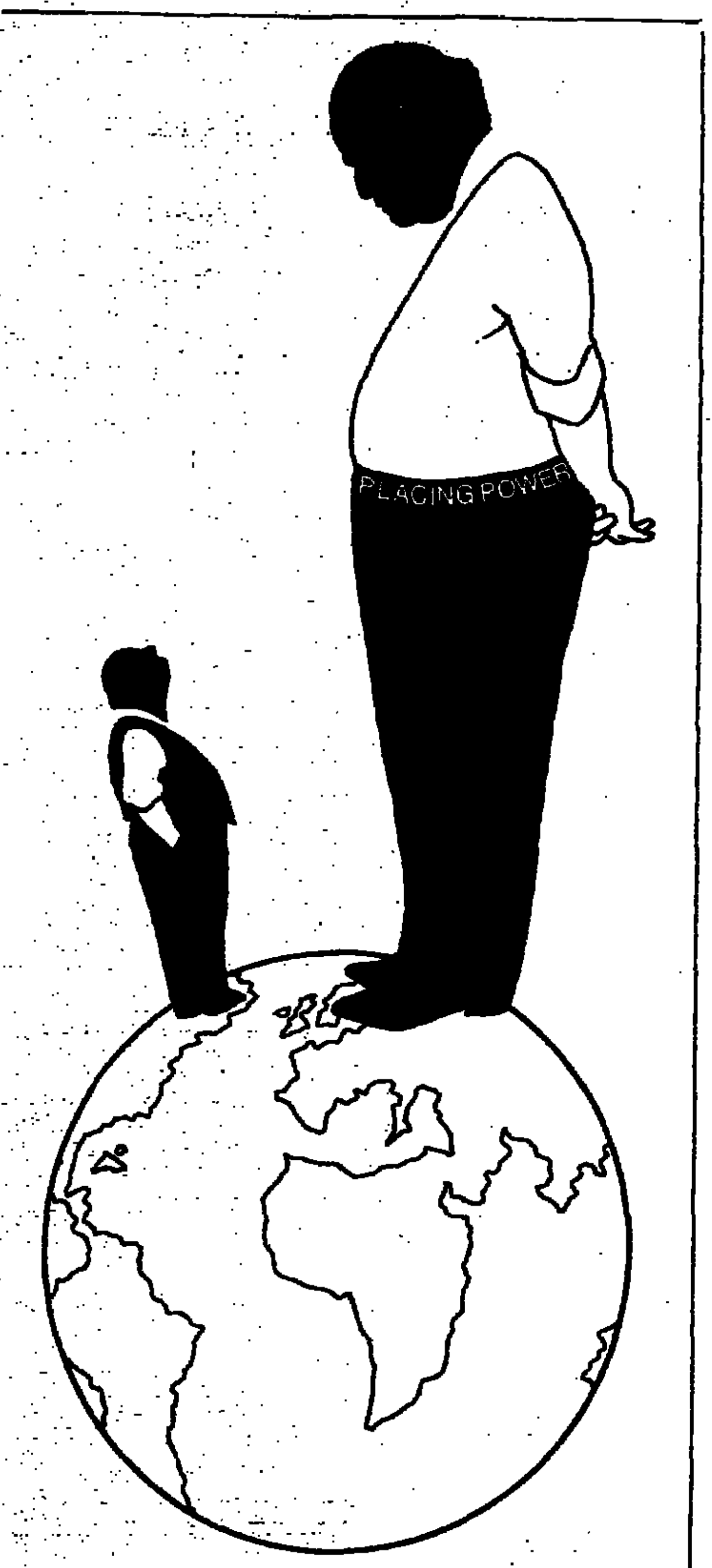
classic role of the invest- merchant bank as that of e-man—wedding the needs rrowers for cash with those nders looking for a good tment—is being increasingly enged not only by the Con- tal "universal" banks who te simultaneously as com- ial and investment banks, also by the offshore mer- t-banking operations of the J.S. commercial banks.

e huge assets of these banks them access to borrowed s to inventory bonds—a t-making operation currently ks to the wide spread be- n what bonds yield and t it costs to borrow short- funds. The banks can also into their own investment ollo portions of the loans arranged. In addition, their ercial links give them a wide access to all kinds of ational customers who are s of bonds.

e aim is to offer a one- financial services operation, can offer borrowers not the widest possible geogra- l choice of where to float n, but also the widest op- of debt instruments. This s operating not only in the markets, but also in the ng sector, arranging short- loans if market conditions t warrant floating bonds or cating loans among other if the amount of money d dwarfs what can be rais- the public bond market.

Major Income

s is bad news for the in- ent-merchant banks, whose income, in addition to ar- g mergers and acquisitions elling advice, comes from ancial deals they structure.



'Look, you're a clever fellow. Now why don't you just leave this business to us and find yourself something nice in which to specialize?'

These banks have already been squeezed out of the Eurocredit market, where they once earned big fees for finding the commercial banks willing to participate in loan syndications. The commercial banks figured that as they were the ones to put up the money they should also be the ones to earn the commissions. And now, the commercial banks are threatening to take over the commission-generating end of the Eurobond market.

Clearly, if the investment banks lose this last foothold in the Euromarket, they risk losing credibility with their corporate clients. The Continental banks have already won business away from the investment banks by offering to arrange bigger loans at better terms than the investment banks were willing or able to do.

Investment bankers believe that a lot of the muscle of the Continentals is temporary—due to the high amounts of cash deposits and low demand for short-term bank loans—and as the economic recovery widens they will have less cash disposable to make long-term commitments.

But they also realize they have to compete more forcefully where they can. This comes down to developing "placing power"—finding customers to buy the bonds they manage.

The stakes actually go beyond finding customers for Eurobonds. At some point, the domestic U.S bond market is going to be opened to foreign investors and it is still up for grabs whether the billions of dollars expected to then flow to New York will be channeled through U.S. securities firms or those already set up in New York by the Continental giants.

Up for Grabs

The appetite of European investors for U.S. corporate bonds is estimated to be enormous: They like the companies, they like the economic environment in the United States—and thus the outlook for these firms—and they like the liquidity of the New York market, where buying or selling large holdings can be effected more easily than in the Eurobond market. The rub, of course, is that the interest paid on such domestic issues is subject to a 30-per-cent withholding tax, keeping foreign investors out of the market.

The giant U.S. bond market is partially open to foreign investors in that they can buy tax-free "Yankee" bonds. These bonds, issued by foreign entities, are exempt from the tax. But for the most part, the same issuers sell paper in Europe, where coupons tend to be higher and maturities shorter than in the New York market.

On the other hand, since the removal of the U.S. restrictions on capital outflows in 1974, there have been very few U.S. firms selling paper in the Eurobond market. (Maturities are longer at home, rates are lower and, very importantly, it is now more difficult than in the past for a U.S. firm to sell bonds abroad that are free of the withholding tax.)

But one day the impediments to the free flow of capital will be completely removed, most bankers believe, and securities firms around the world are going to knock on the door of the same 500 top corporations in Europe and the United States seeking to win their business.

"The competition in the coming decade is going to be won by well capitalized, aggressive firms. And it's going to be more of a hardball game," says Arthur Urcinoli, director of international finance at Merrill Lynch.

The surviving firms are going to have to commit big sums to win business and they are going to have the means to sell these commitments to investors.

It is no doubt significant that Merrill Lynch, a powerhouse in the domestic U.S. market, and Union Bank of Switzerland, a rising power in the Eurobond market, see their operations developing the same way. Officials of both firms described in almost identical terms how soundings with several large investors permit them to assess the likely public response to the terms of a new offering. And this, in turn, guides them in determining how much capital to commit to a new issue.

Both see their legions of private clients giving them an edge over the competition in being able to sell off the commitments thus taken.

While investment banks cannot and do not aspire to servicing hordes of individual investors, they clearly are seeking to widen their client base and thus their placing power. One of the keys to forging such a base appears to be a secondary-market capability.

This means "providing liquidity to institutional investors so they can sell existing investments to make room for new issues," says John Hyland, head of the Morgan Stanley Paris office.

"We have to do in the Euromarket what Morgan Stanley did in the United States—convince institutions we could buy existing issues and provide them with the liquidity to buy new issues."

In the trade, this is called a "swap." It means an intimate knowledge of an institution's portfolio, enabling the banker to recommend the sale of old XYZ bonds for a just-issued bond of equal or better quality. The new issue, which is being offered by many banks, is sold and the middleman now has XYZ bonds to sell. These, issued years ago, are not so readily available and finding a buyer for them should, in principle, not be difficult.

"The big orders," Mr. Hyland observes, "go to those who make a market."

Major Brackets

Making a market clearly helps to get ahead in the Eurobond market. Citicorp, for example, started operating in the bond market in 1972 using what is called the "Merrill Lynch approach." This means, in the words of one Citicorper, becoming "such a major force in the distribution of bonds that you are pulled up into the major brackets."

In fact, Citicorp now is a major bracket underwriter. By last year, it had co-managed 18 issues and this year it moved up a notch, becoming a lead manager for three issues to date.

Salomon Brothers is probably the best example of how to succeed fast via a strong secondary-market operation. The big New York firm opened trading here only last March, but it has already co-managed 13 issues and last month emerged as a lead manager—a very fast rise in a short time.

The key to its success is no secret. The firm is willing to take major commitments in new issues, keeping them in inventory if necessary until it can find a buyer. The firm is rumoured to have committed between $15 million and $20 million to its London-based trading operations. The buying power of such a commitment is even bigger as Euroclear, one of the market's two clearing systems, offers trading firms up to 90-per-cent credit against bonds placed in the system that are trading at not less than 90 per cent of their face value.

Logical Way

The way one U.S. banker explains it, "Having a role in the secondary market is a logical way to contact the same institutional investors day after day," establishing a working relationship and becoming familiar with the institution's portfolio.

"To distribute in the primary market, you have got to have clients with whom you deal," says Paul Goldschmidt, vice-president of Goldman Sachs. "You have got to commit capital to facilitate transactions . . . and hopefully bring in business." He admits that investment-merchant banks will never have the kind of placing power the universals currently enjoy thanks to their slack loan demand, but, he adds, the universals "have a long way to go to meet the expertise of investment banks."

He believes the natural edge in expertise coupled with an increase in placing power due to secondary market operations should allow the investment-merchant banks to survive the competition with the universals.

The aim, stresses Tim Mortimer, managing director of Blyth Eastman Dillon, "is not making a market, but providing a service to clients."

The "natural" clients of the U.S. banks are the offshore—Bermuda, Cayman Islands, Netherlands Antilles—tax-haven affiliates of U.S. corporations.

Among these are the cash-rich insurance companies that many large U.S. firms have set up. To recapture the huge insurance premiums they pay out annually, many companies have set up insurance vehicles which are run like ordinary insurance companies. All of the corporation's subsidiaries pay insurance premiums to the offshore firm and it lays off part of the risk by re-insuring with established insurance companies. Meanwhile, the premium income is used to build a portfolio and because it is based offshore its operations escape U.S. taxes and restrictions on buying securities not registered with the Securities and Exchange Commission (such as Eurobonds).

A number of U.S. bankers also talk about forging a network with smaller European banks which, it is claimed, have never been served adequately because individually their business appeared to be not enough to merit the effort.

Evidence that there may indeed be a need here is shown by the fact that the smaller private banks of Zurich and Geneva as well as the Swiss cantonal banks have each formed separate groups which are powerful enough to be invited to underwrite new issues whereas previously these individual banks were lucky to be offered bonds to sell.

Beyond these prospective clients are the giant U.S. institutional investors. Their legal limitations to participating in the Eurobond market are twofold: As the bonds are not registered with the SEC, they cannot buy new issues. But they can buy in the secondary market after an issue "has come to rest," which many banks consider to be 90 days after the initial offering.

The second restriction, a self-imposed precaution in some cases and state legislation in others, limits the portion of foreign bond holdings to a fixed percentage of the overall bond portfolio.

Except for Kidder Peabody and White, Weld, which make markets in a very broad array of issues, the U.S. houses in the market and those about to enter focus on the issues in which they participated as underwriters. More broadly, the strategy is to take a view either in types of issues or currency or guarantors.

Bankers Trust International, for example, has carved a niche for itself as a trading specialist in floating rate notes. First Chicago specializes in paper issued by U.K. municipalities. Continental Illinois concentrates its energy on issues denominated in Canadian dollars.

Whatever the specialty, the entry of the Americans into the secondary market is welcomed all around. This end of the market has always been the weakest link, virtually closing up when conditions soured. Today, however, dealers see the increased participation as adding liquidity and a hopeful sign for the future.

One-Way Street

As a Salomon Brothers executive commented, "For really professional dealers, building liquidity in a down market needn't be only a one-way street."

Stanley Ross, managing director of Kidder, Peabody Securities, suggests that "perhaps, with the increased liquidity they will bring to the market, the big upsets will be a thing of the past" and trading will be possible in even a down market.

One immediate result of the stepped-up trading activities is that London's claim to be the capital of the bond market will be enhanced as most of the new trading operations will be based there.

Morgan Stanley, based in Paris, will set up its trading operations in London and shift its four-man syndication team and half of a beefed-up corporate finance department there also. Merrill Lynch, which recently shifted its trading desk from Geneva to London, has already moved most of its corporate finance base from Paris to London. Blyth Eastman Dillon, also based in Paris, also sees London as the logical place to base their trading operations.

Smith Barney, by contrast, will do its trading out of Paris. "We want to keep all of our corporate finance, investment banking, syndication and trading operations under one roof and we want to stay in Paris," a spokesman says. "We'd prefer to be one of a few houses in Paris rather than one of 60 in London."

In addition, he says, "it makes sense to stay away from the London dealers. Being located there would probably encourage a lot of inter-professional dealing, which is not what we want to do. We are not going to become a major factor in the market. We're going to start by making a market in our own issues and then specialize in a sector which makes sense to us." What sector that will be still has not been decided, he adds.

EUROMARKET SPECIAL REPORT

Banks Now Govern Creation of International Liquidity

(Continued from Page 7.)

and Mexico currently account for about half the total outstanding debt that non-oil-exporting developing countries owe the banks—$31.6 billion out of $59.3 billion.

In a report to Congress last January, the Treasury said that these countries "should be able to finance their projected deficits and avoid debt-servicing difficulties in 1976. If, however, [these countries] are not able to raise the necessary external finance to cover their current-account deficits, they are capable of adjusting their policies to close balance-of-payments gaps—mainly by lowering growth rates."

But, the report continued, these countries warrant "continued attention since they have large private debts and any debt-management problems could have an adverse impact on private capital markets."

Bond Issues

Brazil has sold almost $200 million worth of bonds to the public since 1972 while Mexico has issued $720 million in the domestic U.S. market as well as in the Eurobond market.

Eight other countries, the report went on, "need to be watched very closely." Argentina, Bolivia, Chile, Peru, Uruguay, Zaire, Zambia and the Philippines—together accounting for about 15 per cent of the outstanding bank debt—"have high debt-service ratios and some have special problems. Some are dependent on a single export product like copper . . . Some face internal problems that limit their policy options. Others are feeling the effects of unwise economic policy decisions."

Eight other countries account for the remaining bulk of the total bank debt of the less-developed countries (LDCs). Thailand, Taiwan, Singapore, Malaysia, Colombia and Morocco, the Treasury says, have low debt-service ratios, a solid cushion of reserves and a continuing inflow of direct foreign investment—which means that they should not have any problems meeting outstanding debts.

Egypt and Israel fall into a special category, since both are big receivers of bilateral official aid enabling them to finance their deficits.

By the end of this year, Morgan Guaranty estimates, the total debt of the non-oil LDCs will have risen to $170 billion and some $70 billion will be owed to the banks. Of an estimated $20-billion increase in bank loans this year, some $12 billion will be used to repay outstanding debt. Another $6 billion or so will go for interest payments.

Morgan projects that in 1977 amortization of existing debt will run at about $14.5 billion and that some $8 billion will be spent on interest payments. Bankers estimate the crunch will start to be felt around the time that the repayment schedules of the older, 10-year debts begin to get bunched up with those of the recent five-year loans, creating a very heavy financial burden in the final years of the decade and the early 1980s.

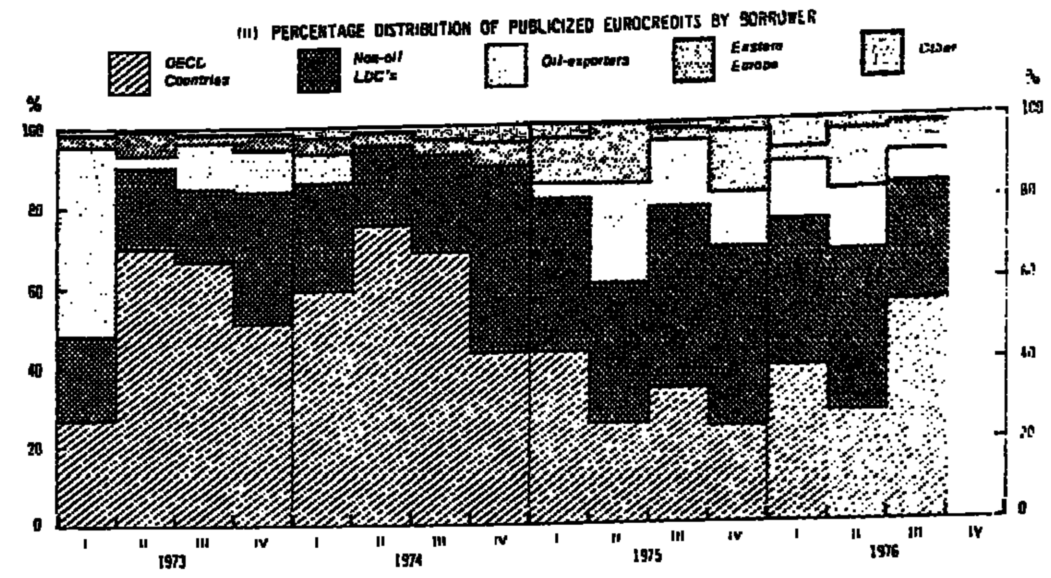
The debt problem becomes particularly onerous when measured against the expected trade deficits of these countries as a group. In 1973, in the midst of the worldwide commodity boom they ran a deficit of $4.5 billion. But the recession in 1974 cut the demand and the price for these goods and the deficit soared to $22 billion and in 1975 totaled $23 billion.

The projected deficit for this year is $20.5 billion and for next year $18 billion. However, the sputtering economic recovery in the major industrialized states and the prospect for yet another increase in the price of oil make these figures look optimistic. But taken at face value, when the interest payments and amortization of outstanding loans are added in, the less developed countries will have an expected total shortfall of around $42 billion both this year and next. More than half of this financing is expected to be provided through official bilateral and multilateral grants and loans.

The remainder—close to $20 billion this year and next year—will have to come from commercial banks.

To cope with the accelerating debt-service burdens in the next three to five years, the U.S. Treasury says that these countries may "have to accept lower growth rates unless they secure large increases in export earnings and internal savings so as to reduce their reliance on external finance."

But accepting a lower rate of growth, when the growth rate has already been impaired by the worldwide recession, would entail severe economic hardship for the



developing countries and would negate the whole purpose of having started on the debt cycle. The object of the heavy borrowing was to mitigate the impact of the recession and to permit these states to continue to expand and diversify their economies to become self-sufficient.

Therein lies the basis of the frequent calls by officials in these countries for a moratorium on the debt or some kind of rescheduling to give them breathing space.

In private, commercial bankers worry that these states may get together to prepare a collective default. In public, however, bankers and Western government officials insist that this will not happen.

"It is highly unlikely that major borrowers would default on their obligations entirely since a default could well preclude them from future access to international capital markets," Fed chairman Arthur Burns reported to Congress. "In the postwar period there have been a number of occasions in which developing countries have not been able to meet all external debt obligations on schedule. On such occasions there has been some rescheduling of external debts . . . In such a situation banks have experienced some loss in income, but actual loan losses have been a small fraction of the credits extended to countries rescheduling their debts, since in virtually all cases the borrowing countries have repaid their debts."

The recourse to bank loans was an unfortunate choice because most of these countries could not afford to borrow money at commercial terms. The interest payments were too high and the duration of the loans was too short.

Significantly, there has been only very limited borrowing at the International Monetary Fund beyond what could be tapped automatically. This included some $2.9 billion borrowed under the special "oil facility" and smaller amounts from the buffer stock facility and the fund's compensatory financing of export fluctuations. Few LDCs have sought to draw beyond these because subsequent borrowings would entail increasing supervision by the fund over the direction of domestic economic policy.

The fund itself, in its recently published annual report for 1976, commented:

"In Africa and the Middle East, a high proportion of the non-oil countries attempted throughout 1974 and most of 1975 to maintain the momentum of development programs in the face of adverse shifts in export earnings or to protect domestic consumers against the impact of higher import costs on living standards. With these aims, they followed policies that brought enlarged fiscal deficits, rapid increases in domestic liquidity and aggravation of existing or emerging pressure on prices and external-payments positions."

The Euromarket provided most of the finance to support these policies.

"The figures suggest," said former Bank of Italy governor Guido Carli in a speech to the Bank for International Settlements in June, that "the private banking system took over the functions proper to an official institution possessed of the power to finance balance-of-payments disequilibria."

Noting that the developing countries will need to finance a deficit of some $42.5 billion this year (a $30-billion current-account deficit and $12.5 billion to repay outstanding debts), he said that "if all IMF facilities were activated, international agencies would contribute up to $28 billion towards financing this deficit. Part of the remainder would be covered by export credits; but this would still leave a substantial amount to be met by the international banking system."

The commercial banks, he added, "have shown a greater ability than the official institutions not only to create the necessary liquidity for the development of trade but also to organize its efficient distribution. As a result, the IMF's ability to enforce observance of rules of conduct has diminished. It should be remembered," he said, "that the fund's prescriptive powers derived from its ability to exclude refractory countries from access to conditional credit. As almost all credit is now drawn from other than official sources, the fund's ability to lay down conditions has been correspondingly reduced."

The dilemma that emerges from this situation is that the developing states are loath to deflate their economies in order to finance their debts and seek to stay outside the [illegible] the IMF.

Commercial banks, on the other hand, are afraid [illegible] become overextended [illegible] that to suddenly turn [illegible] screws would create [illegible] hardship likely to result [illegible] defaults they do not want to happen.

This was clearly the [illegible] in the recently negotiated [illegible] million loan to Peru, when banks, putting up half the [illegible] tied their participation [illegible] pledge by the government to take drastic measures to [illegible] the economy. The loan agreement calls for a continuing monitoring of the nation's [illegible] policies by the banks—the first time that private banks police a borrower's monetary and fiscal policies, a role [illegible] reserved for the IMF.

Unfavorable reactions [illegible] and elsewhere to private banks "dictating" policy [illegible] prompted Citicorp vice-chairman G.A. Costanzo to remark in an interview in Institutional Investor that "I want no part of deals with that kind of discipline in the future."

The commercial banks take a different tack with Argentina, whose public sector external [illegible] is estimated at some $3.5 billion. Much of this reportedly falls due between now and the end of the year. In what bankers privately admit is a "bail out" operation, the banks agreed [illegible] to refinance debts provided it first applied for a loan from the International Monetary Fund.

The $300 million IMF [illegible] obliges Argentina to adhere to an austerity plan recommended by the IMF experts.

The message bankers say [illegible] are trying to communicate [illegible] other developing countries is [illegible] if they submit to IMF surveillance of their economic policies [illegible] banks will provide the financial help get these countries over the hump.

U.S. banks are providing the largest single portion of the [illegible] to Argentina—$500 million [illegible] $850 million coming from [illegible] around the world. The largest part of the European portion, $90 million from West Germany, followed by $60 million from [illegible] banks, $30 million from [illegible] French, $20 million from banks in the Netherlands and $15 million [illegible]

(Continued on next page)

EUROMARKET SPECIAL REPORT

A Role Which Was Once the Unique Province of Central Banks

(Continued from preceding page.)
the Belgians. The rest is [illegible]ig from banks in Canada [and] Japan.

[The] terms on all these loans are [identi]cal: four years at 1 7/8 over [the in]terbank rate. Participation [fees] and other commissions raise [the] net cost to Argentina to just [over] 2 1/4 points over the inter[bank] rate.

[At] present, the banks are willing and eager to lend [again]. Conditions in the Euro[currency] market today are rather [simil]ar to those of 1971-72, when Eurobanks first discovered [there] were credit-worthy borrow[ers i]n developing countries that [were] good risks. Then, as now, [bank]s were awash with cash but [had] few loan applications from [tradi]tional borrowers. The fact [that] the newcomers were willing [to p]ay high interest made them more attractive to the banks. [In] 1972, the cost of six-month [Euro]dollars ranged from a low [of] 3 per cent to a high of 7.8 per [cent], the lowest these rates had [been] since 1967. Today, the rate [is h]overing at just under 6 per [cent].

LDC Credits

[Th]e amount of Eurocurrency [cred]its extended to LDCs jumped [from] $300 million in 1970 to $946 [milli]on in 1971 to $1.5 billion in [1972] and $4.53 billion in 1973.

[Th]e 14-per-cent increase in [credit]s extended in 1974 was a [fract]ion of the 196-per-cent ex[pans]ion of the previous year. The [drop] was the result of both the [qua]drupling of oil prices in late [1973], which cast profound doubts [on t]he ability of these nations to [repa]y their loans, and the li[quid]ity crisis of 1974 following [the] collapse of Bankhaus Herstatt [in W]est Germany.

[Bu]t by 1975 Eurobanks had a [depo]sit inflow of some $20 billion [from] the oil-exporting states [and], with the recession in full [swing] and traditional clients not [seek]ing loans, turned to the only [custo]mers they could find. Loans [to] LDCs rose 32 per cent that [yea]r to $8.3 billion, while credit to [Com]munist countries rose 109 [per] cent, to $2.6 billion.

[T]he developing states were not only the biggest seekers of money, they were also willing to pay a lot more for their loans than other borrowers. While the Soviet Union paid 1 percentage point over the London interbank offered rate (LIBOR) for a $100-million loan, Bolivia and the Philippines paid spreads of up to 2 1/4 points and Gabon, South Korea, Peru and Zambia paid around 2 points over LIBOR for amounts that were mostly significantly below $100 million.

With the banks themselves seeing profits at home squeezed by the recession, the high returns offered on loans to LDCs were unquestionably a major attraction.

Zaire, which has failed to keep up its debt payments to the banks, is a good example of what was happening. According to the World Bank, the copper-rich African nation, with a per-capita income of $140 a year, owed banks $1.27 billion at the end of 1974—almost half of its total outstanding debt of $2.56 billion.

"If there was one international bank network at work here, it was that of First National City Bank" and its affiliates, says a soon-to-be-published report by the Organization for Economic Cooperation and Development on "Borrowing by Developing Countries on the Eurocurrency Market."

The report indicates that questions about Zaire's creditworthiness go beyond the impact of the worldwide recession and the rise in oil prices. It cites lack of control over the budget, overextended external debt, poor performance in meeting its credit obligations and inefficiencies in the system. It quotes bankers as questioning the wisdom of using foreign credits to build a sports stadium or other non-economic projects and reports that bankers "speak of extensive corruption that pervades almost every transaction."

Bluntly Stated

"Given the persistence of the problems outlined," the report asks, "could any [loan] participants have been unaware of them?" Answering its own question, the report states bluntly that "many participating banks have relied on the FNCB (Citibank) evaluation of Zaire's credit-worthiness..."

The report's concluding comments on Zaire are telling and go beyond the specific case at hand:

"There exists a fundamental difference in the attitudes of bankers and of economists in aid agencies toward the role of commercial loans in a country like Zaire. Aggressive bankers find such economists overly cautious, concerned about softening the terms of foreign credit to exclude, almost as a matter of principle, private bank loans. If the country's planners are in a hurry, the international banks, when they are liquid, will be there with the finance.

"Economists are appalled by the short-term view of the bankers that can do more harm than good by funneling funds into a country not organized to manage them well."

"It is a bit hard," the report states, "to sympathize with bankers who by their lending knowingly helped the government ignore the advice of technicians from such institutions as the World Bank or the IMF, yet who later objected when they themselves were harmed by the consequences of Zaire's failure to heed advice, and who then called on those very institutions to bear the burden of recycling petrodollars into countries like Zaire."

For its part, Citibank avers that it is "scaremongers" who have been "hinting darkly that the LDCs' creditors—especially the large banks of the West—faced wholesale rescheduling of debts at best and a frightening default rate at worst" which would result in a financial collapse. In its July issue of Money International, the bank states that "the likelihood of a massive rescheduling of LDC indebtedness is very small, but even if it happened, it would no more trigger another worldwide depression than did the shock of the oil embargo and ensuing price hikes . .

"Today no major country will permit a severe and prolonged contraction of its money stock. Central banks would respond . by increasing the reserves of private banks."

Debt Piling

As for the "persistent pessimist' who argues that avoiding breakdown does not eliminate the possibility of default, the bank says it is unlikely that there will be defaults on a scale "that would be very painful" for particular bank lenders.

As long as the commercial banks go on extending new loans to cover the amortization and interest due on outstanding loans, there will be no risk of default. The question, of course, is how long the banks will go on piling debt on top of debt. The recent scramble by banks to participate in an $800-million loan to Mexico indicates that the time has not yet arrived. Mexico's recent massive devaluation of the peso has yet to be followed up by the budget and wage policies needed to make the cut a success.)

Nevertheless, the signals are that the time is approaching. Syndicated loans to developing countries in the third quarter were running at an annual rate of less than $6.5 billion, two-thirds of the level recorded in the second quarter. And while maturities and spreads for prime borrowers have moved in their favor, the cost of funds to LDCs has actually gone up.

Although the spread over LIBOR has remained at over 2 points, higher front-end fees (commissions and participation fees) have jacked the effective rates on these loans to between 3 and 3.5 points over the interbank rate.

As long as the banks are liquid, they will continue making loans. The crunch clearly will come when loan demand from the bank's traditional customers picks up, crowding out the developing countries.

To avoid a crisis, says Morgan Guaranty's chief economist, Rimmer de Vries, the developing countries have to work to restore the confidence of lenders. "The only way to bring this about is to force discipline," he says. "These countries have got to work more closely with the IMF" to come up with workable long-term plans to overcome their problems and thereby restore the willingness of bankers to continue making loans.

The burden, he admits, is as much on the banks as on the borrowers. "The banks are preventing the fund from fulfilling its proper role" by providing a too ready access to cash, according to Mr. de Vries.

Beyond that, he says, the United States, West Germany and Japan have "a heavy burden" to stimulate their economies and reduce their current-account surpluses. This would suck in imports of raw materials from the developing states.

Oil Pricing

In addition, "there is a heavy burden on OPEC to be considerate in its pricing of oil." An 8-per-cent increase at the end of this year, he warns, "will have a depressive effect and aggravate financial problems." He maintains that there is no justification for an increase because "the government take of oil has risen faster than the index of world manufactured goods in dollar terms."

"In short," he said, "there has been no erosion in their purchasing power. They can buy more food and manufactured goods, on average, than a year ago."

As for the LDCs, he insists that there is no way they can escape having to make adjustments in the wake of the oil price increase and the world economic slowdown.

"The banks are going to have to provide a lot of dough, and it is in the interest of all that this be done smoothly and that it diminish gradually. The greatest danger," he says, "is that some sudden scare in the market will lead to abrupt termination of bank lending."

TOP LEAD MANAGERS OF SYNDICATED EUROCURRENCY CREDITS IN 1976	
1. CITICORP INTERNATIONAL BANK	4196.61
2. BANK OF AMERICA	3443.80
3. MANUFACTURERS HANOVER	1746.60
4. MORGAN GUARANTY	1503.30
5. CHASE MANHATTAN	1049.34
6. BANKERS TRUST INTERNATIONAL	813.00
7. DRESDNER	811.30
8. CREDIT LYONNAIS	783.00
9. LIBRA BANK	620.00
10. IRAN OVERSEAS INVESTMENT BANK	610.00
11. CREDIT SUISSE – WHITE WELD	495.00
12. EUROPEAN BANKING CORPORATION	489.00
13. FIRST BOSTON EUROPE	431.00
14. WARBURG	390.00
15. ORION	380.00

TOP LEAD MANAGERS OF SYNDICATED EUROCURRENCY CREDITS IN 1975	
1. CITICORP INTERNATIONAL BANK	3122.00
2. BANK OF AMERICA	2131.50
3. MORGAN GUARANTY TRUST COMPANY	1333.66
4. CHASE MANHATTAN	1209.00
5. CREDIT LYONNAIS	1070.97
6. MANUFACTURERS HANOVER LTD	972.00
7. UBAF	650.00
8. WELLS FARGO BANK	513.00
9. CREDITANSTALT	410.00
10. LLOYDS BANK INTERNATIONAL	404.80
11. AMRO	387.38
12. FIRST CHICAGO LTD	380.50
13. DEUTSCHE BANK	375.00
14. ORION	365.00
15. KUHN LOEB	357.50

SOURCE: EUROMARKETS MONTHLY.

IN MILLIONS OF DOLLARS

Debts of East Bloc Countries Worrisome

(Continued from Page 17.)

French, Italian and Japanese banks.

Meanwhile, as the debt continues to grow, Western governments are trying to adopt a systematic approach to their economic relations with Comecon and to answer some of the questions Secretary of State Henry Kissinger raised at the end-June ministerial meeting at the OECD. Among the questions he asked:

- What are the implications of the growing external debt of the Communist countries?
- How can the industrial democracies deal with possible efforts to misuse economic relations for political purposes inimical to their interests?
- How can we ensure reciprocity in trade between market and non-market countries?
- How do we deal with the problem of dumping and other unfair trade practices by countries in which prices need not bear a relation to costs or market forces?

Discussions within the OECD on these questions "have not gone very far, and it's unclear where we go from here," an official says.

Most experts agree that so long as Comecon demand for Western goods remains strong and at least until the recovery in the West gets under way there is not likely to be any harmonization of trade policies among the major industrialized states regarding East European trade or credits.

The Eurobond Market...

Continued from Page 7.)

tumn or, at latest, by year-end. The accepted wisdom now is that the upturn will occur by the second quarter of next year or, at the latest, by summer. When that happens, of course, the coupons offered on new bonds will also rise. But the shift will not be harmonious. Short-term interest rates have dropped much more sharply than have bond coupons.

The three-month Eurodollar rate, for example, dropped from 10 3/8 per cent in January 1975, to just under 7 per cent by September to around 5 1/2 per cent at present. At the same time, coupons on seven-year bonds fell from 9 1/2 per cent in January to 9 1/4 per cent by September to just under 8 per cent at present.

The expectation, therefore, is that short-term rates will move up further and faster than bond coupons. As the gap closes and the rate structure shifts upward, the price of outstanding bonds will drop. Such an adjustment is the mechanism by which the yields on this paper are brought into line with current rates.

Thus, there will be a double pressure on the banks to dump their bond holdings. On the one hand they will see the cost of future financing climb and on the other the value of their bonds decline.

But the selling pressure may begin even before then. Many banks may not be eager to show such holdings in their year-end financial reports and may get out of the market to avoid having to do so.

Inundation

Regardless of the timing, there seems no doubt that the market at some point will be inundated by a great wave of selling. If past performance is any indicator of future behavior, the market will seize up. New-issue activity will halt amid confusion over where the true market rate lies and the record number of firms now listing themselves as market makers will shrivel as traders withdraw from the secondary market.

Then the prices of outstanding bonds will fall so low as to discourage further selling and to begin attracting bargain-hunting investors. Slowly a newly established rate structure will begin to emerge and activity will begin to pick up.

"But the damage," says one experienced trader, "could be enormous."

Exactly how the coming crunch will alter the structure of the bond market is anybody's guess. But there is no doubt that it will play an important role in deciding the current struggle now going on between the Continental "universal" banks—giant institutions which combine under one roof the functions of commercial and investment bankers—and the U.S. and U.K. investment-merchant banks, which until recently dominated the Eurobond market.

The evidence of the struggle lies in the rankings of banks most active in the market. These so-called "league" tables—of managers and co-managers of new issues—which measure the muscle a bank has with both corporate clients and individual investors, have produced a kaleidoscope of power shifts within the banking community.

Until the beginning of the decade, for example, the tables were dominated by Americans. Morgan was the No. 1 bank and three other U.S. houses were among the top 10 managers and co-managers of new issues.

By 1970, however, the power of the "universals" began to erode the position of the investment-merchant banks and Deutsche Bank moved to the No. 1 slot. By 1973, not a single U.S. bank was among the top 10 issuing houses.

Since then, Deutsche and Kredietbank Luxembourgeoise have vied for the top slot, with Kredietbank on top in 1974 and 1975.

But the preliminary indications for this year show that a new shift is taking place, with the top three Swiss banks now threatening to dominate the list of leading managers and co-managers. (It should be noted that Credit Suisse White Weld objects to being ranked as a Swiss bank, noting that it is a U.K.-based merchant bank in which Credit Suisse owns 40 per cent. However, it is a fact that in the year preceding the link with the Swiss bank, White Weld had lost its place among the list of top 10 managers and co-managers.)

The Swiss have always been big sellers of Eurobonds, but they were slow to use this placing power to muscle their way into managing issues. In 1973, only Union Bank of Switzerland was among the top 10 managers and co-managers but by last year the Swiss had moved up to occupy the third through fifth positions.

An Exception

S.G. Warburg has the distinction of being the only merchant bank to hang in among the top 10, demonstrating its expertise in developing its placing power and attracting high-quality borrowers to seek its imprimatur, and also demonstrating the ineffectiveness of the Arab attempt to force other banks to boycott Warburg (and additional institutions).

Long gone from the league tables are the other investment-merchant banks that once dominated the market: Lehman Brothers, Kuhn Loeb, Smith Barney, N.M. Rothschild, First Boston, Goldman Sachs, Hambros, Hill Samuel and Kleinwort Benson. Some were forced out by their reputation for consistently mis-pricing new issues or for having sponsored issues for com-

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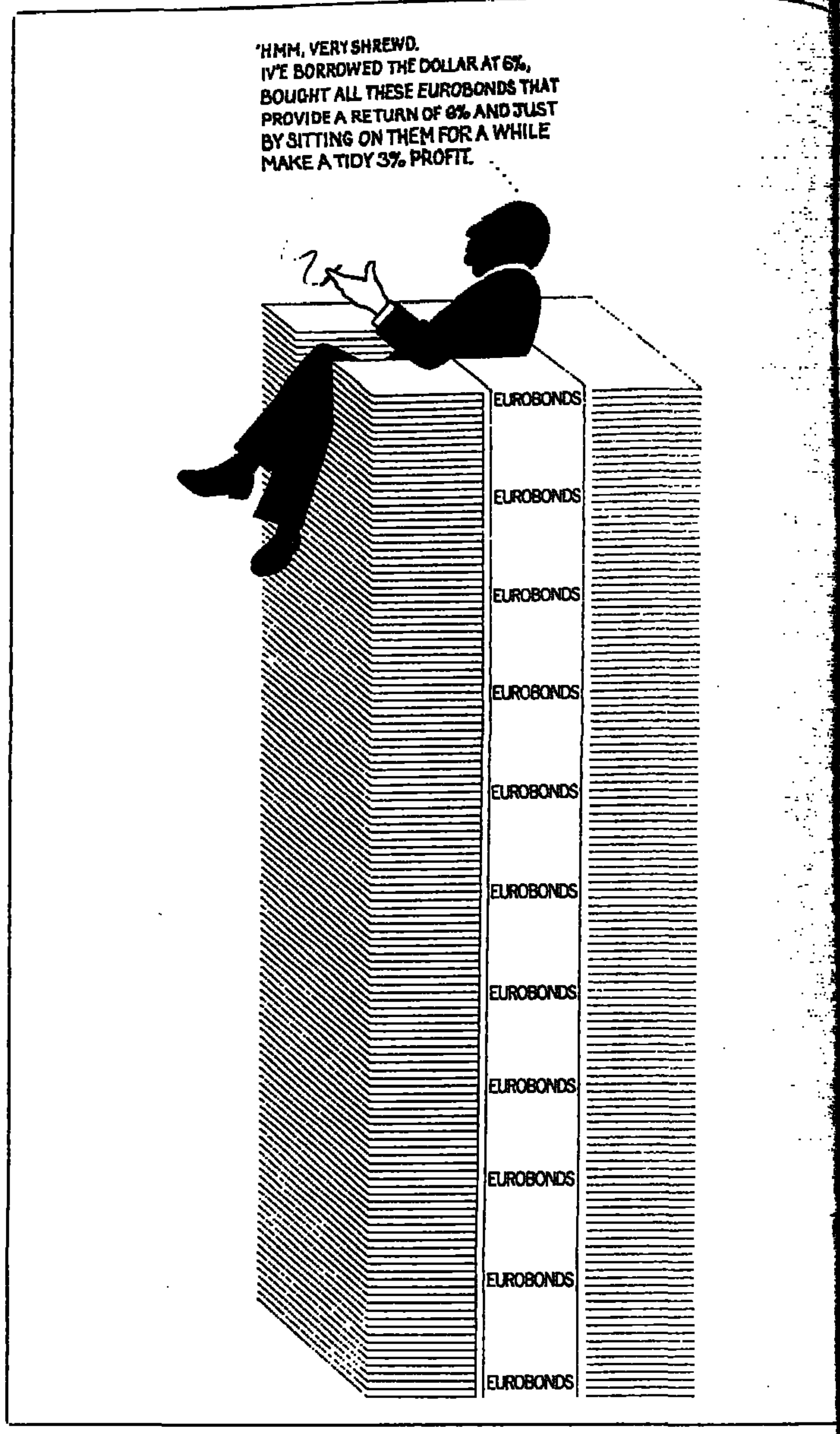

EUROMARKET SPECIAL REPORT

·ontinues to Ride High, With a Record Volume, but a Fall Is Foreseen

At present, the universals see themselves as the wave of the future, winning borrowers away from the investment-merchant banks, which are seen becoming 'boutiques' and 'specialists' initiating new concepts such as currency cocktails of one kind or another or grooming new borrowers to tap the public market.

nued from preceding page) that went bust. But they failed to develop lacing power necessary to their position in an ex- ng market.

il recently, the competition ake or stay in the top was a quiet struggle. But t is quite open. Managing ue and putting together a ate of co-managers is a delicate business. Tradi- veighs very heavily, in that vers normally use the same to be lead manager. And a syndicate has been put ter it is rare to see changes er issues. The banks form- the syndicate are mostly n for their placing power their close links to the bor- And changes usually make rs'- eyes pop and tongues ver the ins and outs of any tions.

ely, there has been a lot of pping and tongue-wagging.

Agreement

e recent $300-million loan for alia was the most notable ple, if only because the s involved are two of the important in the market: an Stanley and Deutsche

fore the deal, the orderly oc- r in this highly competitive et was extraordinary.

nkers in private conversation that Morgan is the premier ng house—despite its ranking e league table. The compe- speaks enviously of Mor- "stable" of clients—a Who's of the coveted triple-A-rated wers, mostly American. And speak admiringly of Mor- reputation for setting the s—coupon and issue price— tly where they should be (as enced by the fact that the almost never collapses when ing starts in the secondary ket).

e secret of Morgan's success, one competitor, is that "they t have a single dummy work- for them."

eutsche Bank, by the sheer ght of its position in the bond ket, is the leading contestant the title of premier European k—a claim reinforced by its role as lead manager early this year for the European Economic Community's maiden entry into the market. That issue—$500 million of 3.7-year, 7 1/2-per-cent notes; $300 million of six-year, 8 1/4-per-cent notes, and 500 million DM of seven-year paper carrying a coupon of 7 1/4 per cent —was the largest single financing yet floated on the Eurobond market.

When a new borrower, such as the EEC, comes to the market, there is a fierce scramble among banks for the glory of being lead manager and equally fierce jockeying among banks to be invited as co-managers.

But until this year there was relatively little effort put into winning business away from banks which by tradition were lead managers to particular borrowers. The notable exception to this "gentlemanly" approach was the periodic scavenging of the client lists of banks, like Lehman or N.M. Rothschild, which for one reason or another appeared to be dropping out of the market.

In the eyes of many bankers, however, the Australian business opened a new chapter in competition between banks. Until this issue was floated in September, Morgan had been lead manager for Australia's dollar-denominated Eurobonds—four issues totaling $100 million marketed between 1965 and 1967 here and in the United States simultaneously. Deutsche Bank had managed eight issues denominated in marks totaling just over 1 billion DM (about $325 million) and Morgan had been a co-manager in most of them.

Thus, Deutsche Bank could argue that it had raised more money for Australia in the Eurobond market than Morgan had and that Deutsche Bank, therefore, was Australia's lead bank in Europe.

The deal Deutsche Bank proposed was "aggressive" in that it was for $300 million—about triple the amount of what is considered a large issue in this market—at terms that at the time appeared to be overly generous to the borrower and not so advantageous to investors.

The bank also made it a firm offer—that the deal would be carried out at the conditions it proposed. Normally, banks commit themselves only to make a "best efforts" attempt to market a loan. This leaves them an out to alter the conditions—lowering the principal amount, the coupon or the issue price, or at worst canceling the issue — in case market conditions change during the offering period and investors show no interest in buying the paper.

The Division

To make a firm offer, Deutsche Bank committed itself to underwrite nearly $50 million. The three big Swiss banks—Credit Suisse White Weld, Union Bank of Switzerland and Swiss Bank Corp.—were given around $25 million each to underwrite and Amsterdam-Rotterdam Bank and Banque Nationale de Paris agreed to underwrite close to $12 million.

Morgan was offered an underwriting of $12 million and second place on the "tombstones" advertising the placement—that is, ahead of the order dictated by underwriting commitments. But it turned the offer down.

Normally, in a "best efforts" syndication of a bond issue, managers commit themselves to underwrite between 5 and 10 per cent. Considering that issues are rarely for more than $100 million, the figure would normally run between $5 million and $10 million. And the risk here is considerably less, since managers are reasonably certain that the terms will be set at a level designed to attract investors to buy the bonds.

But in Morgan's view, the Australian loan was too big for the market to absorb and the coupons offered on the three-part package of 7, 10 and 15-year paper were too skimp. In its view, the underwriters risked having to sit on bonds that the public would not buy.

As matters turned out, short-term interest rates declined by almost a quarter of a point during the 15-day offering period, making the terms more attractive to investors.

But the episode demonstrated the basic difference between the approach of the "universals" such as Deutsche Bank and investment banks like Morgan. The "universals" can and are willing to take a view about where the market is headed and put their cash on the line.

Investment banks, by contrast, do not take views. They sound out the market to determine what the going terms are and aim to find buyers for all of the bonds.

Obviously, the universals want to find buyers also. But they have a cushion to work against, knowing that they can take the unsold portion onto their trading books while awaiting the opportunity to find buyers.

This gives such banks the power to go out and win business by offering borrowers terms that investment-merchant banks cannot match. Thus, the Kingdom of Denmark dropped Kuhn Loeb and gave the mandate for its business to Union Bank of Switzerland and Norsk Hydro left Hambros for Swiss Bank Corp. because they were offered terms that the investment-merchant banks could not meet. (Hambros maintains that the switch to SBC was not significant in that the loan was really a Swiss placement in dollars.)

At present, the universals see themselves as the wave of the future, winning borrowers away from the investment-merchant banks, which are seen becoming "boutiques" and "specialists" initiating new concepts such as currency cocktails of one kind or another or grooming new borrowers to tap the public market.

"There's no reason for the investment-merchant banks to stop being active," says a banker at one of the universals. "They should be encouraged to find their own specialization tuned to their inventiveness and flexibility and make the most of it."

While happily acknowledging that they are inventive and flexible, the view of their limited role is rejected by the investment-merchant banks still in the market.

Temporary

They view the current domination by the universals as a temporary phenomenon made possible by the low level of short-term interest rates and the weak demand for commercial bank loans. When rates climb and commercial loan demand picks up, they say, the universals will have neither the stomach nor the spare cash to outbid the investment-merchant banks for new business.

"The universals," says one merchant banker, "are due for a bath." He confidently asserts that they are too big and move too slowly to stay in touch with changes in market temperament (the way, he adds, that investment-merchant banks do) and he predicts that they will get caught with big losses on their inventory of bonds when conditions change. "It will have a chastising effect," he adds.

The big mystery is just how much the universals are sitting on.

As an indication of the order of magnitude, Deutsche Bank was carrying on its own books at the end of August 3.11 billion deutsche marks (about $1.3 billion) of bonds and other debt instruments. The overwhelming majority of this amount is unquestionably in domestic German paper issued by the federal government and the states.

Karl Miesel, senior vice-president and syndicate manager at Deutsche Bank, insists that the only paper his bank has taken onto its books as an investment was a portion of the $500 million worth of 3.7-year notes floated for the EEC. "This was the only exception," he says, and "was regarded as a substitute for a bank loan." Without disclosing the amount that the bank took, he adds that Deutsche Bank "was prepared to take more than it did but it wasn't necessary."

But a knowledgeable competitor retorts: "Without any question, Deutsche Bank has substantial sums on its own books. Not only of the three parts of the EEC loan, but also of the Australia and Ontario loans they managed this year."

"The bank," he continues, "made statements in meetings with managers about what it was prepared to do to get an issue completed. It's no secret."

Another bank that is the subject of much rumor is Union Bank of Switzerland.

Competitors allege that it and other Swiss banks owe their placing power to their ability to "stuff" undesirable bonds into the discretionary accounts that the banks manage for clients in far-away places, clients who do not pay close attention to their portfolios. (The really bitter critics go further, saying that the money is often illegally earned and the clients are just happy to have their money in Switzerland and do not worry about how it is invested.)

Swiss bankers, of course, dismiss such comments as "jealous fantasies" of their competitors.

(It should probably be noted for the record that the most reliable banking sources do not hesitate to occasionally bend the truth to score a point against the competition in talking with journalists.)

Armin Mattle, head of securities at Union Bank of Switzerland, acknowledges that his bank runs a "special" portfolio that "can be used to take positions because a contract had to be honored." While refusing to divulge the amount of this portfolio, he says that "out of 10 issues UBS managed in the last year, the portfolio was used only once—and then to a small extent."

Extremes

The portfolio, he adds, is used for all markets, for all currencies and for all types of securities—"but only in extreme circumstances" where, for example, the bank might participate in a transaction "for purely political reasons, or when customers' men say 'no' for their clients but the bank can't say 'no' to the transaction."

As for UBS's own customer's man and his ability to say "no" for his client to a loan managed by UBS, Mr. Mattle insists that the bank's investment department is run independently of the syndication section.

As for loading clients' portfolios with slow-moving bonds, another banker observes: "You stuff at your own peril. You may get away with it once, but you may also lose a customer."

The other reputed source of UBS's placing power is its trading portfolio. The bank, says Mr. Mattle, "has a large trading portfolio. It holds substantial positions, more than the average investment-merchant bank, but it is a trading portfolio and not an investment portfolio."

The strength of UBS, he asserts, is its base of retail customers. "Some banks have unlimited access to funds but not that many customers. And when money gets tight and short-term rates move up closer to long-term rates the banks with customers will ultimately be the strong ones."

Caught in the middle of the competition between banks vying for position as lead manager are the hundreds of smaller banks which make up the underwriting group. Underwriting bonds is a profitable business and assures these banks of getting securities to sell to their clients.

For them, the dominance of the universals is a mixed blessing. They dare not risk refusing to accept an invitation to underwrite an issue—even if the terms are overly aggressive—for they fear that they may never be invited again. They also complain that when the universals have a "hot issue," allotments to the underwriters are small but when the issue is a "dog," allotments are large.

The benefits they see are better prices in the secondary market as the universals use their powerful trading rooms to support the price in deals they have managed (although this is not always the case).

They also see the commitment to support issues in the secondary market as leading to better-quality borrowers tapping the market. The investment-merchant banks, the small banks say, could afford to bring second-rate borrowers to the market because those banks had no commitment to stand by the issue in the after-market.

And a final, perhaps optimistic point, the small banks believe that after the current competition with the investment-merchant banks ends, the universals will set terms more favorable to investors than borrowers because the borrowers will then have less of a choice.

EUROMARKET SPECIAL REPORT

Zaire—The Most Troublesome Debtor in Bankers' Portfolios

PARIS (IHT).—Of all the developing states to have tapped the Euromarket, Zaire is by far the most troublesome to bankers.

According to the latest World Bank data, Zaire's external debt at the end of 1974 totaled $2.56 billion, of which only $1.31 billion had actually been disbursed.

Of the total debt almost half —$1.27 billion—is owed to commercial banks. The bulk of the bank loans was extended to cover exports from the industrialized countries and is secured by guarantees from export-finance agencies such as the Export-Import Bank.

Commercial bankers close to the situation estimate that the unguaranteed portion of the bank debt does not exceed $500 million.

Zaire's problem in repaying this debt is tied to the dramatic swing in the price of copper. Exports of the metal account for more than two-thirds of Zaire's foreign-exchange earnings. After touching an all-time high of $1.50 a pound in late 1973—around the height of Zaire's borrowing—the price of copper collapsed to 54 cents and is now selling at around 57 cents, reflecting the impact of the worldwide recession on industrial demand for primary products.

The price-bust was devastating because Zaire had put all its efforts into developing the mining industry, neglecting such key sectors as agriculture. As a result, the nation which was once a net exporter of agricultural commodities now spends an estimated one-third of its foreign-exchange earnings to import basic foodstuffs.

In June, the major governmental creditors of Zaire laid out the framework for a rescheduling of their loans. According to these guidelines, the debt due in 1975, 1976 and 1977 is to be repaid over the next 10 years. Bilateral negotiations between Zaire and individual countries are now going on to fix specific terms within these guidelines. Early next year, the major creditors will hold another meeting aimed at setting the framework for the rescheduling of the debt falling due in later years.

"There has been no permanent solution," a banker said, "because no one yet has all the data. The government agreement is a stop-gap measure and it will probably be rehaggled every year as more debt comes up for payment."

The portion of the commercial bank loans guaranteed by these governments is automatically rescheduled at the same time. Interest will continue to be paid and the only inconvenience to the banks is that the principal amount will not be repaid according to original expectations.

The banks have been left to their own resources to settle the dispute over the roughly $500 million due them that is not guaranteed. Neither interest nor principal has been paid for many months.

The banks are loath to reschedule the debt. First, they fear the "domino theory" that once one country reschedules many others will immediately follow. Second, they see rescheduling tantamount to default. "Who knows where Zaire is going to be in 10 years time?" asks a commercial banker.

Zaire, he says, is currently earning close to $1 billion a year in foreign exchange—enough to pay its private debt.

At present, bankers are hopeful that this will be done.

In London, last week, they held what an official communiqué called a "final" meeting with officials from Zaire at which a "memorandum of understanding" was signed regarding the service of Zaire's syndicated bank debt. "Its implementation should permit the re-establishment of Zaire's credit in international financial markets," the statement said.

It reportedly spells out a "rigorous" re-ordering of domestic priorities that Zaire is undertaking to put its finances in order. A banker who attended the meeting said that "Zaire has a 50-50 chance of pulling it off."

"They're going to put the technocrats back in power and establish basic financial discipline," he said.

That means, among other things, that "there won't be any more imports of Mercedes or French wine," less spending on arms purchases and some delay in certain development plans.

The 13 banks at the meeting, representing the 106 banks that have participated in Zaire's 18 syndicated loans, agreed to cease pressing Zaire to service its debt and "let it have a chance to carry out its program," the banker said.

He said that the banks expect interest payments on the outstanding debt to start "fairly quickly" and implied that this meant within six months. The arrears on principal repayments are expected to be settled very soon after.

"They have worked out a program where they think they can repay the debt. The program does not involve any new bank credits. It is a continuing policy of internal reforms." He said that the bankers were "surprised" at how "rigorous" a policy Zaire proposes to follow. "It involves a heck of a lot of discipline," he added. "They have established a model for other countries to follow."

If it works, he said, commercial banks, which provide the short-term trade credits that every country needs to finance its imports, will be resumed. At present, Zaire has to pay cash on the line.

If Zaire succeeds, he commented, "banks will feel freer to make loans to the developing world."

Just how touchy the banks are about the situation in Zaire was demonstrated by the lawsuits initiated by Citibank and Bankers Trust against the U.S. Ex-Im Bank and Manufacturers Hanover Trust Co., which were planning to lend Zaire $88 million to expand its copper-production capacity.

The exports proceeds from this production were to be used to repay the Ex-Im Bank and Manufacturers Hanover as well as the $290 million in loans that the Ex-Im Bank had previously extended to Zaire.

The suits charged that the Ex-Im Bank, a U.S. government agency, was trying to establish a preferential position in the queue of leaders—violating Zaire's loan agreements with the banks that no credit would be arranged that would rank higher than the bank loans.

"When a government lender uses its power to obtain preferential treatment for itself at the expense of private lenders, these lenders will be reluctant to extend further credit to foreign government borrowers," a Citibank spokesman said. He added that "such action by one government invites other governments to adopt a similar approach."

The suit was settled out of court with the Ex-Im Bank agreeing that it would not seek to include its outstanding loans under the agreement.

But bankers insist that this does not mean they are willing to waive their rights on all new loans. A waiver will have to be sought in each case that involves a superior security.

Arab Banks Are Less Visible, But Money Flow Continues

PARIS (IHT).—"A year ago the bond market was less good and they needed us, today the market is booming and they don't need us," an Arab banker comments in explaining why the Mideast institutions have virtually disappeared from the list of Eurobond co-managers.

"Who wants an extra co-manager when you know a deal is going to go well?" he asks, noting that whatever invitations do come to participate in an issue are never "for any of the hot deals."

He admits, however, that the attempt to force Western banks to apply the Arab boycott against so-called Zionist banks is "an important part of the problem" and that banks prefer to avoid such politics by not inviting Arabs into the management group.

But the Arab money "is there, in increasing amounts, despite the low visibility of Arab institutions."

Another reason for the low visibility, a U.K. banker with close ties to the Mideast says, is that "private investors prefer to deal with Western banks rather than with each other. Many are placing their investments through the big Swiss banks as well as some of the London houses."

Better Spread

The money this banker sees is going "increasingly into floating-rate notes because they offer a better spread than deposits."

The coupons on floating-rate Eurobonds are tied to the six-month deposit rate and are reset twice a year, often at a fixed percentage over the deposit rate. Some $735 million worth of such notes have been sold, accounting for almost 12 per cent of the total volume of dollar-denominated paper sold so far this year.

Another reason for using European banks is that Mideast investors are increasingly drawn to U.S. securities, the U.K. banker observes. "They perceive the United States to be the one country that over the next three generations is likely to honor the rights of private property. And they want to take steps to disguise their ownership through European banks" in case there is ever a war and Arab property is confiscated.

A number of bankers believe that the civil war in Lebanon made the Arabs more aware of the need to diversify their investments. "Enormous sums initially went into Middle East real estate," one banker commented, "but the bloom is off the rose. There is an increased willingness to look for investments outside the Middle East now."

According to the U.S. Treasury, investment of the oil-exporting countries in U.S. stocks and bonds totaled $8 billion in the first eight months of the year—of which $7.2 billion came from Saudi Arabia, Kuwait, the United Arab Emirates and Iran.

The Treasury also reports that it has seen an increasing shift toward common stocks and longer-term debt maturities. In 1974, by contrast, more than 85 per cent of their investments were for maturities of less than one year.

The figures also show that an increasingly larger portion of the investable surplus is going to the United States—35 per cent of the total so far this year compared to 26 per cent for all of 1975 and 20 per cent in 1974.

The Treasury statistics also reveal that a smaller proportion of the overall surplus of the oil-exporting states is going into the Euromarket—18.9 per cent of the total during the first six months of the year compared to 20.7 per cent during all of last year.

But bankers maintain this is not a true reflection of money flows out of the Mideast. The U.S. statistics represent investment of official surpluses whereas an increasing amount of wealth is now in the hands of private individuals, they say, and their money is increasingly coming into the Eurobond market. Even the official investments, they add, are increasing in the bond market as increasingly more money is shifted out of the deposit market into longer-term investments.

Arab bankers are still hopeful that an "Arab-dollar" bond market can be created. There have been about 10 such issues —mostly for Japanese borrowers —already floated but almost all of this paper has bounced back to the Eurobond market. In addition, there have been a number of issues floated that were denominated in Kuwaiti dinar. Arab bankers believe that as a secondary market for these KD issues develops a dollar-bond market will also evolve.

"A lot of things can be done in the Mideast that can't be done in Europe," comments one enthusiast. Noting that South Korean, Turkish and Yugoslav borrowers have tapped the KD market, he estimates that developing countries such as Mexico, Brazil, Singapore and Malaysia would find a ready market for their bonds denominated in dollars.

One indication that a bond market may be emerging is the just completed $50-million, five-year issue floated by the European Investment Bank which was managed by an all-Arab syndicate. Among the co-managers were two institutions which never before participated in bond issues—Qatar National Bank and Riyad Bank Ltd., in which the Saudi Arabian Monetary Authority holds a large stake.

Rothschild Seeks Comeback in the Bond Market

PARIS (IHT).—The last Eurobond N.M. Rothschild & Sons brought to market as lead manager was in November 1974.

The combination of the Arab boycott against the so-called Zionist banks coupled with the unenviable reputation of mispricing the issues it had managed, appeared to kill whatever hope the merchant bank had of recapturing its former leading role in the market.

But two years, three chairmen and many middle-level heads later, Rothschild is now "consciously trying to re-establish our position."

"The demise" of Rothschild was only "in visibility," says John Loudon, director of the international division. "There was no demise at all in profits." (Asked for figures, he says that "the bank is a private bank, we never disclose profit figures.")

Nevertheless, he says that "in retrospect, it was a mistake" to pull out of the Eurobond market. "We thought the boycott problems would be greater than they were and in 1974-75 changed emphasis.

"We built up our international business, boosted our operations in New York and the Far East, opened offices in South America to get more funds under management. And we were extremely successful. We have more funds under management today than in the heyday of the early 1970s when we were in top place" among managers of Eurobonds.

At the same time the bank built up its trade investments and moved into North Sea financing. And now, Mr. Loudon says, "we are actively going out to get back into the bond market—and we will get back in.

"In retrospect, what we should have done was to keep on the road when no new issues were being done. The anticipated effects of the boycott on our ability to lead and co-manage issues was wrong—Warburg proved it was a wrong decision.

"We're a new team now," he says alluding to the re-organisations begun by Lord Rothschild when he took over chairmanship of the bank in April 1974 and completed by Evelyn de Rothschild, who took over last April.

International Herald Tribune
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PARIS, MONDAY, NOVEMBER 8, 1976

Along With Republican Defections

Old Democratic Coalition Was Key for Carter

By Robert Reinhold

YORK (NYT).—Jimmy arter, in the final analysis, he presidency by holding er the basic elements of ld Democratic coalition, ng back many of those who rayed in recent years and ng away at enough inde- nt-minded Republicans to in a slim margin over Pres- Ford.

damentally, the result re- l the classic partisan and class divisions known to voters of a generation ago. olatile election boiled down contest between incumbency artisanship, and ultimately loyalty prevailed to the crat's advantage.

Mr. Carter was apparently to retain enough of his as an iconoclastic inde- nt to make substantial in some traditionally Re- an segments of the elec- —such as the white Prot- —as well as draw back of those who have strayed the Democratic party in t years, including South- and conservative Demo- Surveys suggest that had Hubert Humphrey of Minnesota run instead of Mr. Carter, President Ford probably would have won last Tuesday.

From interviews with tens of thousands of voters sampled by CBS News as they emerged from the voting booths across the country, the following are some of the major factors that contributed to Mr. Carter's edge in the popular vote:

• The major effort for the Democratic ticket by organized labor apparently succeeded. President Ford led by 52 to 48 per cent among the three-quarters of the voters in the survey who come from nonunion households. But the Democrat's 61-to-38 margin among those from union backgrounds was enough to tip the balance.

• Mr. Carter's 5-to-1 advantage among blacks may well have been crucial. Mr. Ford probably would have won in an all-white United States, by 51 to 48. Although Mr. Carter's margin among blacks, a group he carefully courted, was a little higher than average for a Democratic candidate, he did not do as well as Sen. George McGovern of South Dakota did four years ago or Sen. Humphrey in 1968.

• The presence of Sen. Walter Mondale of Minnesota on the ticket as the vice-presidential candidate, along with Mr. Carter's performance in the debates, seems to have helped offset voter doubts and misgivings about Mr. Carter as a person. The many voters who cited the vice-presidential choice as a major factor in casting their votes went overwhelmingly for the Democratic ticket.

Independent Vote

• Mr. Ford was unable to pile up enough of a lead among the growing independent segment of the electorate, which is crucial to any Republican because Democrats outnumber Republicans by 3 to 1. The President won only 51 per cent of the independent vote, while previous Republican candidates have received an average of 61 per cent since 1952. Republicans have needed about two-thirds of the independents to win in recent years.

• Mr. Ford, who campaigned on the assertion that he had restored faith in government, clearly managed to snatch that issue from Mr. Carter. Half of all voters said it was a major issue in their minds, and Mr. Ford won, 51 to 49, among them.

However, a survey conducted by The New York Times and CBS News in the final days of the campaign found that the electorate was dividing sharply along partisan issue lines, and this may have overcome Mr. Ford's slight advantage on the "trust" issue.

• The Democrats who defected to Richard Nixon in 1972 returned in droves. Six of every ten such Democrats voted for Mr. Carter, along with 90 per cent of the McGovern Democrats. At the same time, one-quarter of the Republicans who said they had voted for former Gov. Ronald Reagan of California in the primaries defected to Mr. Carter.

• Mr. Carter did extraordinarily well, 55 to 44 per cent, among voters between the ages of 22 and 29, while losing the 18-to-21-year-old vote. Just why this should be so is not clear, but a possibility is that the younger voters' political attitudes were shaped during the years of protest against the Vietnam War.

While a Democratic presidential candidate can normally expect to do well among such traditionally Democratic groups as blue-collar workers, liberals, Catholics and the like, the real question is how well, because the old Franklin Roosevelt coalition has been shrinking in recent years with growing affluence and suburbanization.

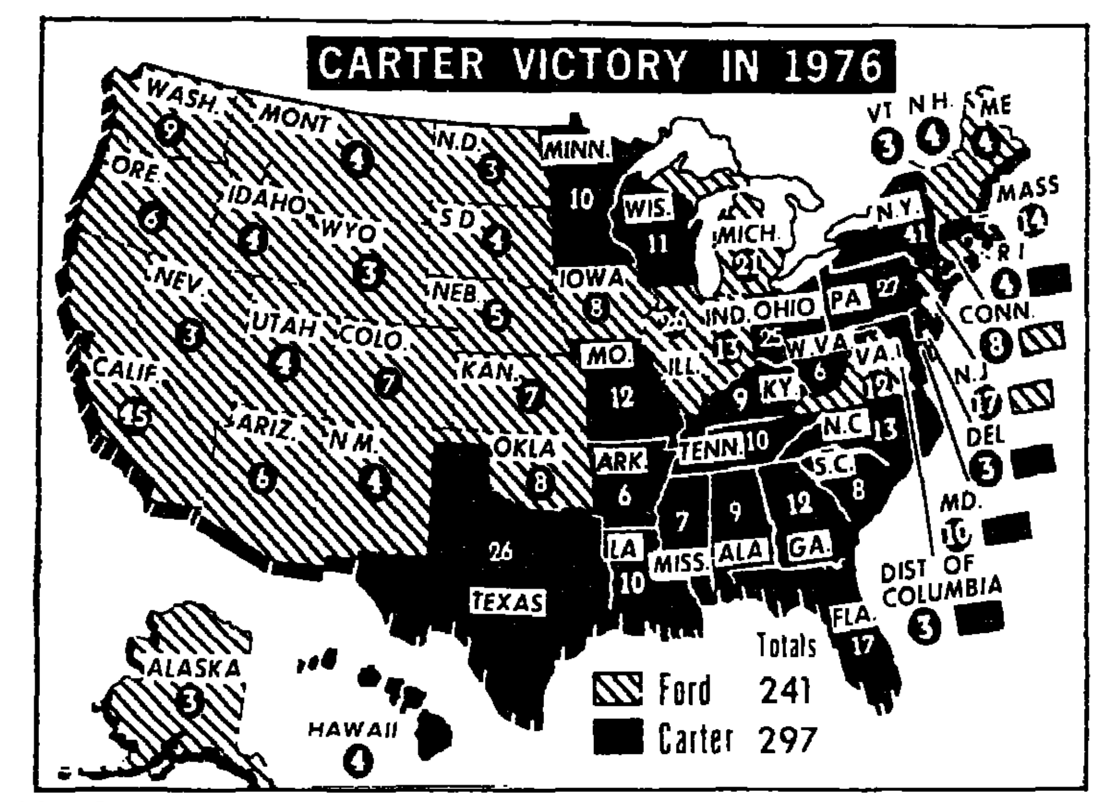
The answer is that Mr. Carter did about average with regular Democrats—not spectacularly well, not badly. He won 79 per cent of the Democratic vote, the average performance of Democrats since 1952. But he won 48 per cent of the independents, 10 points higher than average.

The return to old partisan alignments, forecast in pre-election polls by The New York Times and CBS News, emerged clearly in the union vote. Mr. Carter won 61 per cent of that vote, about average for Democrats over the years but much better than the 46 per cent won by Sen. McGovern four years ago.

The power of organized labor is illustrated by the fact that Mr. Carter won 63 per cent of the blue-collar workers' vote if they were unionized, but only 54 per cent if they were not. Overall, the Georgian won 59 per cent of the blue-collar vote, about average, but much better than the 43 per cent captured by Sen. McGovern.

Among Catholics, another basic pillar of Democratic strength but a matter of special worry to Mr. Carter during the campaign because of his own Southern Baptist religion and the abortion issue, there was some evidence of weakness. Fifty-four per cent of Catholics voted for him, about 4 points lower than average even if the vote for John Kennedy, the only Catholic president, is excluded.

Mr. Carter succeeded in gaining support in groups that normally tend to vote Republican. For example, he did better among professional and managerial people than any Democrat in the last quarter century except Lyndon Johnson. He won 43 per cent of this vote, still a minority but better than the 38-per-cent average for Democrats over the years. Similarly, he won 50 per cent of the vote of other white-collar workers, as compared with a 43-per-cent average in past years.



Map shows states won by Carter and Ford and number of electoral votes in each.

Retiring Majority Leader

'ust Plain Mike' Bids arewell to Montanans

By Grace Lichtenstein

SSOULA, Mont. (NYT).—"It was 45 years ago that a girl Butte married a miner from and since that time we've a very eventful life," the 73-year-old man said in typical matter-of-fact manner at a Democratic dinner the night.

The former miner is known in ington and around the world Sen. Mike Mansfield, the ority leader of the United Senate. But in Billings, Butte, Great Falls, Helena here, he is "Senator Mike," just plain Mike, the man who more to put the vast empty of Montana on the map perhaps anyone since Lewis Clark.

a touching yet dry-eyed of pre-election dinners and recently, Sen. Mansfield, is retiring after 34 years in Congress, said farewell to his constituents around the state. When it was all over, one the feeling he was relieved everyone would finally stop ing such a fuss.

claimed to know Sen. field intimately. His face ables a preliminary study for Charles Russell sculpture but reveals little. He is a man of sentences, of emotions kept in check, of quiet dignity, pretentions. That is probably why Montana residents adore He is very much a mirror people.

Hearty Handshake

so, on each stop of his they turned out to give a hearty handshake, but of that mushy sentimental "thank you you won't change your pe."

"'ll miss you."

"anks."

"joy your retirement."

"will."

ertheless, like the copper once made Butte "the richest on earth," there were deep lex feelings lying below the ce.

Maureen, the senator's wife, talked a little about those feelings between puffs of a cigarette in the cavernous Finlen Hotel in Butte, her home town. "Butte is very sad," she said of the city where once 10,000 miners worked underground on each shift, but where unemployment now hovers around 14 per cent. "It's all gone now. They used to call it the two bits town because you couldn't buy anything for less than 25 cents. It was a real man's town. They had a redlight district, dozens of bars, open gambling, but there are also too many widows because of the mine accidents."

At a breakfast, the senator recalled that in the Depression, Maureen, a schoolteacher, persuaded him to give up mining and go to college, even though he had never gone past the eighth grade.

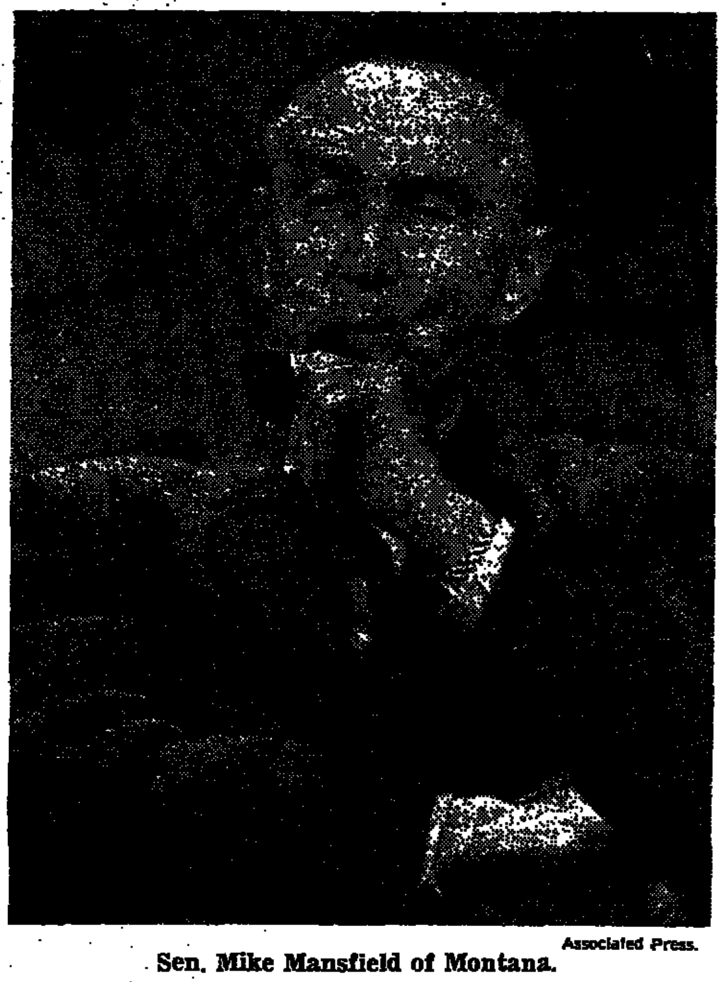
On the way to Mrs. Mansfield's home parish, the Roman Catholic Church of the Immaculate Conception, the senator detoured to look at some of the reminders of their youth.

"Look at the highlands, dear," he said, pointing out the car window at a snow-powdered mountain. "Your father had a gold claim there, didn't he?"

The car turned up a street lined with timbered homes that had seen better days. At the end, abruptly, stood the bulk of a mine shaft. "There's the Anselmo," the senator said in a tone bordering on awe. He was silent for a minute. Then he turned to his wife: "Just about where that fence is was where your house used to be." He fell silent again.

As the car turned up another block, Mrs. Mansfield pointed to still another house. "It was bombed once during a strike," she said matter of factly, as if the labor wars that made Butte a symbol of the class struggle in the Western United States had been part of everyone's childhood.

Sunday night, the Mansfields' eventful life was reviewed in a series of slides shown at a dinner



Associated Press.

Sen. Mike Mansfield of Montana.

at the University of Montana. The senator, a professor of Far Eastern history, has been on leave for three decades, and the school's president noted ruefully that Sen. Mansfield had not yet accepted an offer to return there to teach. (He tells everyone he intends to "loaf," although there are rumors he might become ambassador to China.)

Brain Trustee

The slides were narrated by James Rowe, a Butte native who went to Washington to become one of President Franklin Roosevelt's "brain trust." The slides showed the former miner and his wife with five different presidents.

When he got to Missoula, Sen. Mansfield had been on the road for five days, stoically enduring testimonials and gray roast beef dinners at every stop. But as he left a church dinner Sunday afternoon to go to a dressy reception at the university president's house, he suddenly turned to a visitor and said in his clipped, Gary Cooperish delivery: "Now we're going to what you might call a joint. But I was going there long before I was a senator, and they've been good to me."

With that, he strolled comfortably into the Oxford Café, a smoky lunchcounter with a long bar, a pool table and a crowd of very un-university patrons.

Nobody made a fuss. They just came over, singly and in pairs, to say hello. Sen. Mansfield sipped a cup of coffee. Eventually, one of the regulars gave him a plain envelope that had been tucked into the side of the cash register.

"Fellow was in a couple of days ago. Said he thought you might be passing through Missoula, so he left this," the man said.

It was a personal note from a blind veteran. How did he know where to leave it? "Guess he knows me pretty well," the majority leader said. With no further explanation, he strolled out to endure one last testimonial.

In Contrast to Ford's Noninterventionist Policy

Carter Is Expected to Be an Economic Activist

By Leonard Silk

NEW YORK (NYT).—The ascendancy of Jimmy Carter to the presidency will bring with it a transformation of U.S. economic policy from caution and passivity toward greater experimentation and activism.

Although the specifics of the new economic policy will emerge only gradually—and, on many matters, exist only as a gleam in the eye of Mr. Carter or his advisers—there appears to be little doubt that a Carter administration will approach economic and social problems in a far more interventionist way.

President Ford sought to reduce the role of government in the economy. His doctrine, as expressed by a critic in the Carter camp, was, "spend less, do less, think small."

Mr. Ford believed that the main wish of the U.S. electorate was "to get government off its back and out of its pocket."

Awareness

An awareness of the strength of that public attitude was anything but foreign to Mr. Carter. The first part of his campaign for the presidential nomination was based upon it.

But Mr. Carter won the election as a result of his perception of an even stronger desire on the part of a majority of the voters, especially workers and members of the lower income groups, to get rid of the intense problems of unemployment, inflation and the social ills, ranging from urban decay to crime to labor unrest, that feed on prolonged economic stagnation.

The most sensitive of Mr. Ford's advisers recognized in the final hours of the campaign that the administration had projected too passive and negative an image on economic and social matters. William Seidman, Mr. Ford's White House political-economic adviser, said on Election Day that a new Ford administration would doubtless put more money into programs to ease the job problems of minority groups and other disadvantaged people.

Yet even Mr. Seidman said that the Ford administration would wait to see whether the recovery picked up speed next year. Mr. Ford's top economic advisers, Secretary of the Treasury William Simon and Alan Greenspan, chairman of the Council of Economic Advisers, maintained until the last that the economy was still in a healthy recovery and that next year it would be stronger. They contended that housing would soon be back to normal, that capital spending would pick up next year and that consumers would recover their appetites as inflation continued to moderate.

Less Hopeful

But Mr. Carter's advisers are less hopeful. Indeed many of them believe that the economy needs stronger stimulus if it is to avoid the danger of higher unemployment and an aborting of the recovery.

There was one major worry that troubled Mr. Ford's top advisers in the last days before the election—that of a looming international financial crisis. Their concern was that nations running huge balance-of-payments deficits—which may be exacerbated by a coming oil-price increase—would be unable to borrow more money from private sources and would be driven to default on their already huge loans. Mr. Simon is projecting a $50-billion deficit among oil-importing countries for next year.

However, the administration does not believe that it should bail out the debtor countries, any more than it wanted to bail out New York City. Mr. Seidman said: "We must not let the sinking ones drag us under. Simon's approach is the same as his philosophy on New York City—don't help people too soon, but wait till they make a plan to get out of trouble themselves, before you help them."

Both in the domestic and the international areas, Mr. Carter's advisers think this philosophy is not only dangerous but a way of prolonging or exacerbating crises.

A key Carter adviser on international economics, Prof. Richard Cooper of Yale University, thinks the United States must be prepared to take a "positive attitude" on the question of external debts.

Import Cuts

He holds that for all countries to try to "adjust" their imports downward, in order to meet payments deficits, as Mr. Simon appears to recommend, would be to slash the markets for other countries' exports and give the world economy a heavy shock.

"Mr. Simon," Prof. Cooper said, "is ignoring the adding-up problem. There is no way for the oil-importing countries to simply adjust to an OPEC [Organization of Petroleum Exporting Countries] surplus of $50 billion."

On the domestic front, a Carter administration seems certain to be more activist in both "macroeconomics" (overall fiscal and monetary policy to deal with the economy as a whole) and "microeconomics" (specific programs to deal with specific problems, such as joblessness, cost-push pressures of industry, urban decay, mass transit, health care and welfare reform).

But the painful and delicate job that Mr. Carter and his aides face is how to deal with all such problems within a noninflationary budget. Their problem will be how to phase in programs that they regard as urgent and how to get rid of programs that they regard as wasteful or of lower priority.

Mr. Carter will be in the fortunate position of working with a Congress controlled by his own party, and the fireworks and flak that hampered White House-congressional relations under both Presidents Richard Nixon and Gerald Ford will be gone.

Procedures

Yet Congress has its new budget procedures, and Mr. Carter himself comes in with the hope of being regarded as a relative conservative, or for that matter as a tax-cutter.

Mr. Carter did not promise a tax cut during the campaign, as did Mr. Ford, for next year. But his advisers, worried about the economy's slowdown, seem likely to push for one soon.

They will seek fiscal flexibility in order to keep the economy from falling into recession or, later on, to restrain any super-boom.

Mr. Carter has given indications that he means to listen to his experts on such matters. In the final throes of the campaign when Mr. Ford said he would make a tax cut next year his "No. 1 priority," Mr. Carter sent an urgent call for a poll of his economic advisers to determine how he should respond. He took their advice, which was that it would not be responsible for him to promise a tax cut until the budget and economic situation clarified.

If Mr. Carter is to pursue the spending programs he regards as crucial and still achieve a balanced budget by the end of his term, as he has promised, he recognizes that he must be careful about giving away too much money through tax reduction. Mr. Carter also has promised tax reform, and knows that he must reserve some tax reduction to lubricate the reform.

Mr. Carter's highest priority will doubtless be, as John Kennedy's was in 1961, to "get the country moving again."

Mr. Carter and his men believe that economic growth and higher employment are the great solvent in the United States for social and psychological problems. They contend that it will also be good for business to have more steam in the economy's boiler. They insist that the price of greater production, investment and employment need not be more inflation, provided that overall policies are prudent and that inflation is curbed by specific pressures on prices and wages.

Although it will take months—perhaps even a couple of years—to mobilize and fully mount this new economic offensive, Mr. Carter's job of putting together a general staff and overall strategy to deal with the nation's economy is already well under way.

Modest Gains for Women Recorded in U.S. Elections

By Constance K. D'auVin

WASHINGTON (IHT).—Feminists felt discouraged after last Tuesday's election results were in and women officeholders had made only slight national gains. There are still no women in the Senate and though 54 women ran for House seats, their strength will decline from the present 19 to 18 in the new House.

Also discouraging was the fact that many of the races were close. Two could not be finally decided until Thursday.

On the state level, women scored only 6 wins out of 19 tries for statewide offices, such as governor, lieutenant governor, secretary of state and state treasurer. It was only in the contests for state legislature seats that feminists seemed satisfied with the modest gains that women made.

"We are making slow but steady progress in state legislatures," said Betsey Wright of the National Women's Education Fund. The fund is part of a women's coalition that distributed about $93,000 to female candidates this year. "Women doubled the number of seats they held between 1969 and 1975," she said.

The trend is continuing, with a 10-per-cent increase in the number of seats won this year. Women, who make up 51.3 per cent of the population, now hold 9.1 per cent of all state legislative offices. There are a total of 7,565 such seats in the 50 states and the two major parties nominated 1,262 women candidates this year.

Governor

Dixy Lee Ray, former head of the Atomic Energy Commission, gained the most impressive office this year by winning election as Democratic governor of Washington. She joins the only other woman governor, Ella Grasso of Connecticut, in being the only woman to win a governorship on her own, without having succeeded her husband to office. In Vermont, Democrat Stella Hackel lost the gubernatorial race to Republican opponent Richard Snelling.

The only woman who ran for the Senate this year, Democrat Gloria Schaffer, failed to beat incumbent Republican Lowell Weicker of Connecticut. The last woman to serve as a senator was Republican Margaret Chase Smith, who lost her 1972 campaign because of her age. She had served in Congress since 1940 and was 74 years old.

All 16 women who sought re-election to the House won. New York Democrat Shirley Chisholm was elected to her fifth term. Sources close to the House Democratic Caucus said she could be its next chairman. If so, she would be the first woman or black to chair the organization that enforces party discipline in the House.

Democrat Leonor Sullivan retired from Missouri's 3d Congressional District.

ERA Boosted

Feminists are hoping that the positive results of the two big tests of the Equal Rights Amendment movement in Colorado and Massachusetts will help it nationally. In a Massachusetts referendum, voters approved a state ERA. But the big psychological boost was the Colorado referendum because it was a proposed repeal of the state ERA which was adopted in 1972. In both states, ERA won by a 60-40 margin.

Fredi Wechsler of the National Women's Political Caucus felt the vote would be "a tremendous help in boosting the appeal of the ERA. These are voters who have lived with a state ERA for two years and have upheld it resoundingly," she said.

Two congressional races—one involving no women candidates—were watched closely by women's rights groups. Two Democratic members of Congress up for re-election this year were married two years ago—Rep. Martha Keys of Kansas and Rep. Andrew Jacobs of Indiana. In Kansas, a strong drive to defeat Rep. Keys was conducted on the ground that she could not promote Kansans' interests while married to an Indiana congressman. The issue was thought to have been reponsible for making her race the closest of any of the incumbents. It apparently had no effect on her husband's campaign. Both were re-elected.

lections Put Diverse New Talents on the U.S. Political Stage

By John M. Goshko

SHINGTON (WP).—A Harvard professor with an gift for florid oratory, a less hunter of corrupt pol- , a man who walked on surface of the moon—these some of the new faces ap- ly thrust to the forefront politics by elections last

every general election, a of the familiar figures political scene give way newcomers. Some new ar- will be relatively unnoticed ly, but some will become political stars of tomorrow whose every word and ent are recorded by the media and duly marked by electorate.

will achieve this status the offices they have automatically give them full leverage in the inter- of the political process. will become stars through sheer force of their per- ties and ideas.

ng the Republicans, what be the brightest new face s to James Thompson, 40, won the governorship of . By beating Chicago Richard Daley's Demo- machine, Mr. Thompson ly became one of the men will figure prominently in ation about the Republican nominee for president in 1980.

In Illinois, Mr. Thompson is known as "Big Jim." He is 6 feet 6, but it is also a nickname that seems to fit well with the image of sober moral rectitude and integrity that he projected throughout his campaign and that he has promised to bring to the governor's office.

Behind the image is Mr. Thompson's almost legendary reputation as a former U.S. attorney who successfully prosecuted several Illinois politicians associated with the Daley machine.

Agnew Case

Mr. Thompson also took part in the 1973 federal investigation of Spiro Agnew, then the Republican vice-president. It was he who, after examining the government's evidence against Agnew, told reporters, "The man is a crook, no question about it."

Another bright new face for the Republicans is that of Richard Lugar, 44, elected senator from Indiana. As a former mayor of Indianapolis, he is expected to give the Senate's Republican delegation a dimension in which it traditionally has been somewhat thin—expertise in the problems of the big cities.

In fact, Mr. Lugar's biggest liability during the campaign was having to live down a reputation as "President Nixon's favorite mayor." The boyish-looking Mr. Lugar turned the trick by convincing Indiana voters that he is an intelligent, competent and earnest spokesman for moderate Republicanism.

If anything, he impressed many political observers as perhaps a bit too earnest. They note that the former Rhodes scholar was so serious-minded and scholarly in his approach to the campaign that he sometimes seemed to be trying to overwhelm voters with voluminous recitations of economic data—a tendency that could blight in potential for making himself better known on the national scene.

In contrast to Mr. Lugar's soberness, one of his apparent new Democratic colleagues, Daniel Moynihan, will come bouncing into the Senate from New York with a flamboyant reputation as a political "Renaissance man."

Behind it is 49-year-old "Pat" Moynihan's multisided career as a Harvard University professor, a writer on governmental and sociological questions and a Washington jack-of-all-trades whose government experience has included stints as a White House aide to Richard Nixon, ambassador to the United Nations and to India and service in the administration of Democratic Presidents John Kennedy and Lyndon Johnson.

Along the way, Mr. Moynihan's tendency toward outspokenness has made him a frequent magnet for controversy. At different times, he has antagonized the black community through his unorthodox views on civil rights and won strong support among Jewish voters for his spirited defense of Israel in the UN.

In the Senate, Mr. Moynihan is expected to be a centrist Democrat. But he is also sure to make himself stand out in the crowd with his flair for the dramatic and his fondness for a baroque oratorical style peppered with quotations from obscure philosophers.

Vote-Getter

Republican John Danforth, elected a senator from Missouri, is only 40 but has established himself as one of the most powerful Republican vote-getters in his state's history.

Mr. Danforth is a lawyer and minister as well as an heir to the Ralston-Purina cereal fortune. Despite his wealth, his previous service as Missouri's attorney general brought him a reputation as a strong consumer and environmental advocate. In the Senate, he could emerge as a strong new voice for liberal Republicanism.

Another potentially noteworthy 40-year-old entering the Senate is James Sasser of Tennessee. He staged an upset victory by capitalizing on his image as a progressive young Southern Democrat cut from exactly the same bolt as Jimmy Carter.

Although a shade more conservative than Mr. Carter in some of his views, Mr. Sasser is sure to draw attention because of his resemblance, both politically and physically, to the Democratic president-elect. It could make him a leading spokesman in the Senate for "the new South."

Mr. Sasser seems to be keenly aware of this possibility. He tied his candidacy so closely to Mr. Carter's that he joked on the stump about not wanting to hold Mr. Carter's coattails. Instead, he said, he wanted to get inside the coat.

Probably the most unusual background of any of the new faces belongs to Harrison Schmitt, 41, elected a Republican senator from New Mexico. A former astronaut, he is the only civilian to have walked on the moon.

If his campaign is any indication, Mr. Schmitt's Senate career could be unique. He eschewed many of the traditional issues to present himself to voters as a man interested primarily in such technological problems as desalting water and providing rural electricity from commercial fuel cells.

New York Stock Exchange Weekly Bond Sales

[illegible]

Treasury Bills

[illegible]

Consolidated Trading Of NYSE Listings

Week Ended Nov. 5, 1976

	Sales	High	Low	Last	Chge
Gen Motors	1,331,600	73⅛	70⅞	71	+ ⅛
Texaco Inc	1,040,500	27⅝	26	26	− ⅛
Am Tel&Tel	962,800	63	60¼	61½	+ ⅛
Kresge SS	791,800	42⅛	40	41⅝	+ ⅜
Exxon	785,200	53⅛	49⅝	49⅞	−2
Warnr Com	740,300	28	23⅞	24½	+ ⅛
Whittakr	732,000	6⅛	6⅛	6¼	unch
Dow Ch	697,300	43⅞	40	40	−3⅝
Gulf Oil	633,100	27¼	25⅞	26⅛	− ⅞
Am Home	632,200	33¼	31	31	−2⅛
Fla Pow Lt	605,800	34⅞	34	34¼	− ⅜
Cont Oil	589,300	37¼	34⅝	34⅝	−1⅝
Std Oil Cal	528,400	37½	33½	34	−3¼
East Kodak	511,400	89¼	82⅞	83½	−5⅝
Atl Richfl	504,000	58	53½	53⅞	−3¼
Travelers	488,200	37⅞	35⅝	35¼	−2
Tex Util	488,300	20½	19¾	19⅞	− ¼
Citicorp	481,600	30⅞	29	29	−1¼
RCA	475,500	25⅞	24¼	25⅝	+ ⅛
Sears Roeb	463,100	58⅝	65⅞	62⅞	+1⅝

Issues traded in: 2,080.
Advances: 861. declines: 894; unchanged: 385
New highs: 129: new lows: 83

Volume

This week	80,211,940 shares
Previous week	76,537,880 shares
1975 same week	74,399,590 shares
1976 to date	4,524,712,138 shares
1975 to date	4,100,617,117 shares
1974 to date	3,014,949,912 shares

Consolidated Trading Of AMEX Listings

Week Ended Nov. 5, 1976

	Sales	High	Low	Last
Resorts Intl A	1,027,400	13¾	[illegible]	[illegible]
Alleg Airl	281,700	6	4½	[illegible]
Cdn Ex Oil	194,700	5⅛	4	[illegible]
Syntex Corp	156,000	22⅛	21½	[illegible]
Champ Ho	143,800	3⅞	3⅛	[illegible]
WTC Inc	138,200	3⅝	3⅛	[illegible]
Ol Ras Pet	120,300	4⅛	4	[illegible]
Kaiser Ind	114,500	13⅛	12⅝	[illegible]
McCull Oil	107,200	3⅛	3⅞	[illegible]
Ryan Hom	100,000	13¼	10⅞	[illegible]

Volume, 3,823,495 shares.
Year to date, 344,834,825 shares.
Issues traded in: 1,133
Advances: 446, declines: [illegible] unchanged: 365
New highs: 20; new lows: [illegible]

NYSE Averages

Week Ended Nov. 5, 1976
New York Stock Exchange

	High	Low	Last
Indust	60.71	59.33	[illegible]
Transp	39.37	38.14	[illegible]
Utils.	38.52	38.35	[illegible]
Finance	53.96	53.06	[illegible]
Composite	55.07	53.94	[illegible]
Standard & Poor's			
400 Indust.	116.11	113.38	[illegible]
20 Transp.	14.03	13.45	[illegible]
40 Utils.	50.73	49.33	[illegible]
40 Financial	11.89	11.58	[illegible]
500 Stocks	103.73	100.46	[illegible]
Dow Jones			
30 Indust.	971.99	940.24	[illegible]
20 Transp.	217.68	207.72	[illegible]
15 Utils	99.02	97.01	[illegible]
65 Comb	300.77	295.37	[illegible]

Currency Rates

By reading across this table of Friday's closing inter-bank foreign exchange rates, one can find the value of the major currencies in the national currencies of each of the following financial centers. These rates do not take into account bank service charges.

	$	£	DM	FF	L. It	Gldr	BF com	S. Franc
Amsterdam	2.53	4.14	104.415*	50.67*	29.27y	—	6.8840*	103.56*
Brussels (c)	37.165	60.81	15.36	7.454	4.30*	14.7075	—	15.219
Frankfurt	2.4205	3.9634	—	48.48*	2.797x	95.77*	6.510*	99.10*
London (z)	1.6365	—	3.95375	8.1525	1414.5	4.19375	60.625	3.99125
Milan	865.40	1415.15	357.10	173.31	—	342.20	23.28	353.86
Paris	4.99135	8.17125	206.035*	—	5.7620x	197.323*	13.430*	204.330*
Zurich	2.4437	4.0032	100.91*	48.95*	0.3824*	95.55*	6.57*	—

The following are dollar values only: Danish krone: 5.93625; [illegible] Israeli £: 8.56; Peseta: 68.37, Schilling: 17.17; Sw. krona 4.24825; Yen: [illegible] Belgian financial franc: 37.45; Hong Kong $: 4.8170

The Canadian dollar is worth U.S. $1.0266.

(c) Commercial franc (*) Units of 100 (x) Units of 1,000 (y) Units of [illegible] (z) Amounts needed to buy one pound

BUSINESS

INTERNATIONAL
Herald Tribune

FINANCE

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PARIS, MONDAY, NOVEMBER 8, 1976

[E]uromarket

[U]ncertainties About U.S. Policies [T]ake Some Steam Out of Market

By Carl Gewirtz

15, Nov. 7 (IHT).—The
ing acceleration of the
money supply and un-
ty about policy shifts that
-to-be-formed Carter ad-
ation is likely to make
the buoyancy of the Euro-
market last week.
bankers profess to see
on the immediate horizon
any profound reap-
of the outlook. Banks
extremely liquid, demand
is low, and this is not
to change abruptly.
term interest rates may
bound but with economic
in all the major in-
countries below tar-
see little danger of
increase in the cost of

the syndicated bank-loan
these conditions are ex-
to result in a lowering
spreads banks demand over
bank rate. Prime bor-
now pay banks just over
point above the
rate and this is seen
just under 1 point
that it is now
market with the
able than before to
terms. This is already
in some of the recent
concluded. However, bank-
that they will be
reluctant about ex-
the life of these loans
the five to seven years
trend.
contrast, they see condi-
the bond market be-
much more favorable to

10-Year Range

for prime names could
by a further quarter
they believe. While

they expect that it will remain difficult to float issues for 15 years, they see an increasing number marketed in the 10-year range. And many of these will be so-called "bullets," which provide for no early amortization and are redeemed in one operation at final maturity.

New Zealand, for example, is currently offering $100 million of 10-year "bullets" (if the price falls below par a purchase fund will operate to redeem up to 2 per cent of the issue in the first two years and 1 per cent in the next two years which would cut the average life to below 10 years) and a coupon of 8 1/4 per cent. The coupon is the lowest this year for straight 10-year debt and is 1 1/4 points below what a prime borrower had to pay in January.

Demand for this issue is reported to be already double the amount on offer and by the time the subscription period ends, managers believe it may be three times oversubscribed. Such demand would normally warrant either an increase in the principal amount or a cut in the coupon, or both. But the managers are agonizing over how real the demand is and are not yet sure they will make any adjustments. Some bankers, who say they have genuine retail demand for the bonds, warn that their clients will drop out of the issue if the coupon is cut.

Measured against recent issues, a cut in the coupon would be aggressive. Quebec Hydro's 8 1/2s of '86, sold at par, are trading at 99 bid-99 1/2 asked for a yield to maturity at the mid-price of 8.61 per cent.

And Canadian National Railway's 8 3/8s are trading at a mid-price of par. The demand for this issue was so heavy that managers not only reduced the coupon from the 8 1/2 per cent initially indicated but raised the amount to $85 million from $75 million.

But the $40-million loan for France's port authority, Ports Autonomes, guaranteed by the government, did less well. The 15-year bonds carried a 9-per-cent coupon and were sold at a discount of 99, raising the yield to maturity to 9.12 per cent.

Bankers offered three explanations for the poor reception: a diminishing enthusiasm for French government paper, dislike of the 15-year maturity and a coupon that was not sufficiently generous to overcome either of these drawbacks.

The only other 10-year straight-debt on offer is a $20-million loan for Sodra Skogsagarna, a Swedish forestry-products company, carrying a coupon of 9 1/4 per cent. A sinking fund will reduce the average life of this loan to 7 1/2 years.

At the short end of the fixed-rate market, OKI Electric Industry Co. of Japan, carrying the guarantee of Fuji Bank, is seek-

(Continued on Page 29, Col. 1)

The World Economic Scene

Election of Carter Seen as No Great Change

By Thomas E. Mullaney

NEW YORK, Nov. 7 (NYT).—The country's financial markets took their lumps—briefly. New York's municipal bonds, however, found new favor. Labor was gleeful and so were the minorities. But the business and economic community shrugged it off as no great sea change.

Those were the immediate reactions following last Tuesday's narrow election of a former naval officer and Southern farmer-businessman, Jimmy Carter, as the 39th president of the United States.

One of the nation's and the world's major uncertainties was thus finally removed, though big questions remain on how the amiable, low-key Georgian will cope with the United States' worrisome economic difficulties when he begins to look at them from the vantage point of the White House next January.

While there has been no notable reaction abroad to the outcome of this country's national election, the whole world obviously has a big stake in the new course to be navigated in Washington the next four years.

In this increasingly interdependent world, the economic policies and philosophy pursued by the Western world's industrial leader have broad impact around the globe.

Although the President-elect is largely unknown beyond the nation's own borders, he brings the promise of activism with new people and new ideas to the increasingly complex array of international problems.

Mammoth Problems

Even more than the United States itself, most of the Western world has been beset with mammoth economic and political problems that call for greater attention here and elsewhere. America's partners have been hungering for new directions, fresh initiatives, inspiration and leadership from one of their principal economic fountainheads.

The general perception is that, as president, Mr. Carter will embrace somewhat more stimulative programs than his predecessor—a development that offers greater hope for stagnant economies everywhere if it can be kept within noninflationary bounds.

There can be no valid conclusion, however, on the future administration's policies until his cabinet, his staff and his nominees for a raft of agency jobs have been selected, installed and presented with the issues as they exist next January.

What the Carter administration does and how it proceeds must obviously await the unfolding of economic and political events in the next two months or so. An economy that seems sluggish in November may be more vibrant—or less so—after the turn of the year

Tax Cut Promised

President-elect Carter showed his awareness of that fact when, in his first full-scale post-election news conference Thursday night, he promised a tax cut early next year if the nation's economy has not regained its vigor by that time. He said that it "would be heavily oriented toward the lower-payroll level."

In any event, one of the first things on his agenda when he takes residence in Washington is almost certain to be a program to reduce unemployment, particularly among the young and the minority groups, redeeming one of his principal campaign pledges.

Although the most recent economic data were discouraging enough to contribute to the defeat of President Ford, the consensus in the business and economic world is that significant improvement lies ahead. The unknowns are: How much and how soon?

One day after Mr. Carter's tax pledge, the Ford administration had to serve up some additional adverse economic news when it issued the monthly report on unemployment. It showed the jobless rate riding up to 7.9 per cent in October, while the total number of people at work declined slightly from its record height.

That unhappy statistic followed by a day the disclosure that wholesale prices in the U.S. economy had taken another sharp jump upward for the second month in a row—up 0.6 per cent. An even sharper rise (1 per cent)

(Continued on Page 29, Col. 1)

New York Stock Market

NEW YORK, Nov. 7 (NYT).—The stock market cast a negative, although possibly tentative, vote against President-elect Jimmy Carter last week.

On Wednesday—the first session following the election—the Dow Jones industrial average slumped nearly 10 points. On Thursday, when investors took a second look at the economic prospects surrounding the incoming Democratic administration, the Dow bounced back nearly 4 points.

Then came Friday's steep slide, when the blue-chip average lost more than 17 points—its third biggest decline of this year—to close at 943.07. This meant a net setback of 21.86 points for the week.

"It was a Carterized market," the research chief of one Wall Street house declared.

But other analysts noted that the stock market also was wrestling with the deep-seated realities of a slowing economy. On Friday, for example, the Labor Department reported that the nation's unemployment rate rose to 7.9 per cent in October from 7.8 per cent a month earlier.

The market had its bright spots, however. General Motors rose to its highest price so far in 1976 after directors declared a record $3-a-share year-end dividend on the common stock of the country's largest company.

Precious-metal stocks moved counter to the general downtrend on Friday. Even that session's decline, however, was marked more by a pulling back of bids to buy stock than concentrated selling pressure. Volume for the abbreviated, four-session week totaled 80.21 million shares, compared with the previous week's 78.81 million shares.

But the municipal sector of the fixed-income market, in effect, cast its vote for President-elect Carter in securities of the Municipal Assistance Corporation. His election assured a public sellout for a new issue of $256 million in MAC bonds with a tax-free yield of 10 1/4 per cent.

Over-Counter Market

YORK (AP) — Weekly Over the
stocks giving the high, low
bid prices for the week with the
Association of Securities Dealers
not actual transactions but are
dealer prices at which
could have been sold
not include retail markup,
supplied by the NASD.

	Sales in 100s	High	Low	Last	Net Ch'ge
BkofDelaw 2.20	13	23	23	23	
BankamRlty .30e	423	8	7¾	8	+ ¼
BankrsSecLf .35	16	7⅛	6¾	7	+ ¼
BkrsTrSC 1.20	19	14¼	13¾	14	
BanksIowa 1.04		22	22	22	
BanteGeo .48	40	7¾	7⅝	7¾	
BarberGreen .80	253	17¾	17¼	17⅜	− ⅛
BardenCorp .50	11	8⅞	8¾	8⅞	
Barnes HindePh	47	61¼	60¼	61	+ ¾
BarnettBks .72	83	13⅞	13½	13½	− ¼
Basco Inc	3	4½	4½	4½	
BasicEarth Sci	10	1⅝	1½	1⅝	
BassFlnt Corp	10	6¼	6¼	6¼	
BassettFurn .80a	x35	17¾	17	17½	+ ¼
BayBanks 2.10	160	25¾	25	25¾	
BaylessMkts .60	x25	8½	8¼	8¼	
BeardOil .04e	87	4⅝	4	4⅝	+ ⅜
BeckArnley s	17	4	3¾	4	+ ¼
BeechmGrp .08e	17	4⅞	4⅝	4⅞	+ ⅛
BegleyDrug .48	11	8	7½	7⅞	+ ⅜
BelknapMf .95E	11	12⅝	12⅝	12⅝	
BeelineFash .50	38	6	5⅞	6	+ ⅛
BeehiveInt	35	8⅝	8¼	8⅝	+ ⅛
BekinsCo .60	200	7¾	7¼	7⅝	+ ½
BenefStdA .20		7	7	7	
BenefStdB .20		6⅞	6⅞	6⅞	
BengalOil Gas	4433	1 3-16	1	1⅛	
Bentley Labs	409	10½	8¾	9¼	−1
BergstmPap A	2	6¼	6⅛	6⅛	
BetzLabs .40	1742	34¾	30	30¼	−4½

	Sales in 100s	High	Low	Last	Net Ch'ge
BeverageMgt .52	67	12¼	12	12	
BILoInc .60	135	17¼	16¾	17¼	+ ¼
Bibb Co	28	8½	8⅛	8½	
Billythe Kid	12	5¾	5¾	5¾	
BioRed Labs	16	14½	14½	14½	
Bird &Son	154	32½	31½	31½	
BlackHillPL 1.44	28	19¾	19¼	19¼	− ½
BlockDrugA .60	105	12¼	12	12¼	+ ¼
BlueChipStp .24	288	16¼	15	16¼	+1¼
BluefldSupply 1.20a	210	20	16¾	19⅞	+2⅞
BlyvoorGld .71e	710	4½	3⅞	4½	+ ⅛
BoatmnBacsh 2	274	29¼	29	29¼	+ ¼
BobEvanFrm .60	x35	39	38¼	38½	+ ¼
BohemiaIn .40b	123	12⅝	11⅞	12¼	+ ¾
Bonanza Intl	863	2⅝	2¼	2⅝	+ ¼
Bond Ind	3	8½	8	8¼	+ ¼
BoothNewsp 1	675	46½	45⅛	45¾	+ ¾
Boothe Computr	452	6⅝	6¼	6¼	
BostonCoB 1.04	31	12	12	12	
BradenInd .20	16	7⅛	7	7⅛	
Bralorne Res	75	2⅞	2¾	2⅞	+ ⅛
BrassCraftMf .15	23	14¾	14¾	14¾	
BrencoInc .80	57	24¾	24¾	24¼	− ¼
BreunerJohn .68	1	9½	9½	9½	
BrinksInc .40	32	7⅝	7⅜	7⅜	− ⅛
BroadvwFin .16	40	6¾	6⅝	6⅝	− ⅛
BrokenHillP .66e	8	8½	8⅜	8½	
Brooks Fashion .32	169	9⅞	8½	9¾	+1¼
BrooksScanln .70	83	19½	18½	19½	+ ¾

	Sales in 100s	High	Low	Last	Net Ch'ge
BrownTom	379	30½	28¼	29⅜	− ⅝
Browning Arms	49	3½	3½	3½	
BrunosInc .50	28	12	11¾	11¾	− ⅛
Buckbee Mears	128	4	3⅞	3⅞	− ⅛
BuckeyeFedSL	86	9¼	9	9	
BuckeyeInt .60	69	8	7⅞	8	
BufelsftGld 1E	294	7⅝	6⅛	7⅝	+1⅛
Burdox Inc	25	6⅝	6	6⅝	+ ⅝
Burmah Oil	153	½	⅜	½	+ ⅛
BurnsRLCp .20	620	12¾	12⅜	12½	− ¼
Burnup&Sims	724	3¾	3½	3¾	+ ¼
Burton Hawks	234	⅝	9-16	9-16	
ButlerMfg .90	98	22¾	22	22	− ¾
CBTCorp 2.40	38	30	29½	29½	− ½
CFSContl .30	191	13⅝	13¼	13¼	− ⅛
CPT Corp	23	6¾	6½	6½	− ¼
Cafeterias .40	17	16½	15½	16½	
CalMaine Foods	6	5⅛	5	5⅛	+ ⅛
Calbiochem	55	7¾	7⅝	7⅝	− ⅛
Cal1stBnk .60	25	13	12¼	12¼	− ¾
CalLite pf	38	10½	10¼	10⅜	− ⅛
Cal Microwave	80	17¾	17½	17¾	
CalWatSvc 2.40	29	32	30½	32	+1½

	Sales in 100s	High	Low	Last	Net Ch'ge
Cal Windsor	35	7¼	6	6	−1¼
Callon Petrol	97	4¼	4	4	− ⅛
CalnyFood Svc	2	8¼	8¼	8¼	
Cambridge Mem	342	11-16	⅝	⅝	
CameronIrnWk 1.12	x164	28	26	27	
CampusCas .60	12	14	13½	13¾	+ ¼
CannonMills .92a	x40	17⅛	16⅝	16⅝	− ⅛
CanonInc .39e	112	42⅝	42⅜	42⅜	− ⅜
Capital Swst	50	3⅞	3¾	3¾	− ⅛
CarbolineCo .32	44	17½	17	17½	+ ½
CardiacPacmk s	281	30	28¼	28¼	− ¾
Carterfone Com	72	1⅞	1⅞	1⅞	
Carvel Corp	4	9	9	9	
CascadeCp .20a	31	10	10	10	

	Sales in 100s	High	Low	Last	Net Ch'ge
Cayman Corp	646	1⅝	⅞	1¼	+ ⅜
CedarPoint .70b	46	14½	13½	14½	+1
tcentennial Cp	220	6⅜	6¼	6¼	
CenterLab Med	142	1¾	1⅝	1¾	+ ⅛
CenBncCin 1.30b	17	24	24	24	
CenBncshSou .40	46	11⅝	11¾	11⅞	
CentBkSys .40b	34	7⅞	7⅞	7⅞	
CenCaroBkTr .84	3	19	18½	19	+ ½
CenNatRich 1.10		16	16	16	
CenPennNat 1.09	35	11	11	11	
CentTelpf 2	8	31½	31	31½	
CentVIPSvc 1.35	86	14½	14¼	14⅝	
Centran 1.80	44	23¼	23¼	23¼	
CenturyBks .36b	201	5⅝	5½	5½	
CenturyTel .3	80	6	5⅞	6	
ChambrlMf .54a	25	9¼	9	9¼	+ ¼
ChampParts .16	95	3⅝	3½	3½	
ChampProd .80	28	14½	14¼	14½	+ ¼
ChannelCos .24	129	11⅞	11	11⅞	+ ⅞
CharlRBLab .05e	40	15	14¾	15	

	Sales in 100s	High	Low	Last	Net Ch'ge
Charming Shop .10e	25	12	11¼	12	+ ½
Chart House .72	1058	29	27¼	27½	− ⅝
ChathamMfg 72	52	10¾	10	10¼	+ ¼
ChattemDrug .28	1	5½	5½	5½	
Chef Pierre	111	13¼	12½	12¾	
ChemedCorp 1	49	21	20¼	20¼	− ¼
ChemicLeam .60	16	10¾	10½	10½	− ¼
Chemineer .72	34	11	10⅞	11	+ ⅛
Chi&NwTrans A	22	4⅝	4⅜	4⅝	
ChiBrdgIron 1.40	88	59½	58½	59	+ ½
ChiltonCp .20	0	5⅝	5	5⅛	− ¼
ChristnsnInc .25e	311	16½	16	16⅛	− ⅜
ChristnSec 4.52e	21	118	115½	116	−1½
ChubbCorp 1.48	506	41⅝	40⅜	40⅝	−1¼
ChurchsFCh .60b	1021	32	29¾	30¾	−1¼
CinnFinl .64b	24	17¼	17¼	17¼	+ ¼
Cinevideo	108	5¾	5½	5½	
CircleIncSh 1.39e	47	14¾	14⅝	14⅝	− ⅛
CircleSeal .45E	7	15¼	15¼	15¼	

	Sales in 100s	High	Low	Last	Net Ch'ge
CitzenSouCp .96	42	14¼	14	14¼	
CitzSNBkGa .52	2332	6⅞	6⅝	6⅞	
CitiznFidCp 1.60	14	34	33½	34	+ ½
CitznsUtilA s	92	34⅞	34¼	34¼	− ⅛
CitzensUtilB 2	28	31⅝	31	31½	+ ½
CityNatCorp 1	19	17	16	16½	+ ½
Clabir Corp .09e	x48	2⅜	2¼	2⅜	+ ⅛
ClarkJLMfg .80r	2	29¾	29½	29½	− ¼
ClevepakCp .60	251	11⅛	10¼	10¼	− ⅛
ClevTrustCp 2.60	107	45	44¼	45	+ ¾
CleveTr Rlty	110	2¼	2	2	− ¼
ClowCorp .40	68	6½	6	6⅜	+ ⅜
CoastStaCp .27	190	4⅛	3⅞	4⅛	+ ⅜
Cobe Labs	39	18½	18	18¼	
CocaBtlgCons .40	5	10¼	10	10¼	
CocaBtlgLA .80	x290	16¼	15¾	15¾	− ⅛
CocaBtlgMia .43	x210	12¼	11½	12	+ ½
CocaBtlgMA .40	19	12⅛	12	12	− ⅛

(Continued on Page 28, Col. 1.)

(Continued from Page 27.)

Over-Counter Market

(Continued on Page 29, Col.

Insurance Stocks

Euromarket

(Continued from Page 27)
million for five years
per cent. This compares
8 per cent that Nippon
Bank just paid for $25
for five years. Fudosan's
was increased $5 million
coupon was lowered
8 1/4 per cent initially
Although OKI is
by a bank, managers
said that it is normal
commercial credit to carry
a quarter of a point
the terms a bank could
itself.

Italian Issue

attempt to reopen
rate market to Italian
the first since 1973
apathetically. Its
of five-year notes
coupon of 8 3/4 per
sold at 99 1/2, raising
to maturity to 8.88 per

floating-rate note sector is
active. United Overseas
Singapore is seeking
for five years. The
will be set at a quarter
over the inter-bank
is guaranteed to never
below 7 per cent.

This is the first floating note to be issued by an Asian borrower outside of Japan and it is the first Singapore paper to be sold without the guarentee of the government. The 7-per-cent minimum is considered by some bankers to be too skimpy.

The Spanish, by contrast, have won a warm reception from investors by offering minimum guarantees of 7 1/4 per cent. With the six-month interbank rate currently at just under 6 per cent, the standard offering of a quarter over inter-bank would put the rate near 6 1/4 per cent. The 7 1/4-per-cent minimum, therefore, means investors get a full point advantage by buying the Spanish loans. Banco Popular Espanol, like Banco de Vizcaya just before it, is seeking $25 million for five years. The next to tap the market is expected to be Banco Urquijo, which reportedly will seek $40 million.

But the Oesterreichische Kontrollbank showed that high minimums are not needed to win approval. Investors gobbled up its $40 million of six-year notes, which pay either a quarter over inter-bank or a minimum of 6 1/2 per cent.

The only other public issue on offer is a 15-year convertible fo: Ricoh Co. of Japan, which is seeking $15 million with a coupon of 6 1/4 per cent. The poor performance of the recent convertibles from other Japanese firms, however, makes marketing the Ricoh paper difficult. Sanyo Electric's 6 1/4s are trading at 94 3/4-96 3/4 and Sumitomo Metal's 6s are at 94 1/2-96 1/2.

Also being marketed is a private placement for Uddevellauarvet, guaranteed by Sweden. The $30-million, seven-year paper is being sold at par with a semi-annual coupon of 7 3/4 per cent.

Canadian Sector

Canada Trust Mortgage Co. is opening a new chapter in the Canadian-dollar sector of the market that bankers hope will revive investor enthusiasm for this type of paper. It is selling $Can. 25 million of five-year notes which are insured by the Canadian Deposit Insurance Corp., a government agency, for up to $Can. 20,000 per investor. Canada Trust is the nation's second target trust company and its deposits and financial instruments are covered by the insurance plan—provided the life of the instruments is not more than five years.

This indirect government guarantee, bankers believe, enables the borrower to tap the market at less than what it would have to pay if it borrowed without it—estimated at 9 1/2 to 9 3/4 per cent—but above what the government itself might have to pay—thought to be in the area of 8 3/4 per cent. Thus, Canada Trust Mortgage is offering a coupon of 9 1/4 per cent. Bankers expect that other qualified Canadian institutions will seek to follow the example.

Also on offer are $Can. 30 million of seven-year notes for Nova Scotia carrying a coupon of 9 per cent. Pancanadian Petroleum increased the principal amount of its loan to $Can. 35 million from $Can. 25 million. The seven-year notes carried a coupon of 9 3/4 per cent but were sold at a premium of 100 1/2, cutting the yield to 9.65 per cent.

In the deutsche-mark sector, interest rates are falling as investors compete to buy the limited amount of DM issues on offer. Hardly a month goes by now without one or more borrowers dropping out of the line, reducing the amount of paper coming on offer, because of the continuing appreciation of the mark.

North Sea Gas is scheduled to announce a 100-million-DM, 12-year loan tomorrow. The 12-year maturity has been seen only twice before this year, and in both previous issues (Norway and Norpipe) the coupon was 8 per cent. With Norpipe currently yielding 7 5/8 per cent to average life, North Sea Gas is not expected to offer more than 7 3/4 per cent and may try to squeeze by with 7 1/2 per cent.

Short-dated paper, meanwhile, is being offered at levels equal to the lows set earlier this year. Girozentrale und Bank der Oesterreichischen sold 60 million DM of five-year notes carrying a 7-per-cent coupon at par and is trading at 100 1/2. A companion 40 million DM of seven-year, 7 1/4-per-cent notes were sold at 99 1/2 and are trading at par.

Among the recent private placements, Arbed sold 60 million DM of seven-year notes at 99 1/2 with a coupon of 7 3/4 per cent and is now trading at 100 1/2. Banque Européenne de Crédit sold 60 million DM of seven-year notes at par with a coupon of 7 1/2 per cent and is trading at 100 1/4.

Still to be priced is the 100-million-DM, seven-year loan for Pemex, expected to carry a coupon of 8 3/4 per cent.

In the Euroguilder market, Amsterdam-Rotterdam Bank sold 75 million guilders of five-year notes with a coupon of 9 1/4 per cent. Priced at par, they are trading at 100 1/4-101 1/4.

In the Mideast market, South Korea sold 7 million Kuwaiti Dinar (about $24 million) of three-year notes with a coupon of 8 3/4 per cent at 99 3/4 and SAR, Morocco's refinery company, is seeking 10 million KD (about $34 million). The 10-year, 8 3/4-per-cent bonds can be redeemed at par at the end of the fifth year. Privredna Banks Sarajevo has arranged a six-year loan of 5 million KD with a coupon of 9 1/4 per cent and an issue price of 99 3/4.

As for the syndicated-loan market, the best evidence that it is becoming a borrower's market is the extent to which lenders are yielding to the demands of the borrowers. A key example is the $100-million, seven-year loan now being syndicated for Colombia, wherein the government got the banks to accept the jurisdiction of Colombian law for any dispute that might arise over the loan.

The international banking community has resisted yielding on issues such as these up to now and has succeeded in getting borrowers to accept U.S. or U.K. law for settling disputes. Colombia argued that a recent law made it unconstitutional to submit to such international arbitration and the banks accepted—as they did for the recent $1-billion loan for Venezuela.

The Colombian loan has been under negotiation since mid-year, with the banks showing substantial reluctance to accept these terms. The fact that it is now moving forward shows how eager banks are to put assets on their books.

Colombia will pay 1 5/8 over inter-bank, the same as in previous loans, with banks earning fees of 1/4 to 1/2 per cent, depending on the size of their participations.

International Issues

(7-15 years)

Oct. 27: 8.45 %

Nov. 3: 8.43 %; Oct. 27: 8.45 %

Industrials

(7-15 years)

Nov. 3: 8.43 %; Oct. 27: 8.47 %

Industrials

(5-7 years)

Nov. 3: 7.24 %; Oct. 27: 7.21 %

Market Turnover

	Nov. 5	Oct. 29
Cedel	$361.7 mil.	$596.0 mil.
Euroclear	$737.6 mil.	$878.4 mil.

Economic Scene

(Continued from Page 27)
in the most sensitive
component of that
industrial commodity
satisfactory levels
economists tended to
the flare-up, saying that
sale index reflects list-
rather than the actual
quotations in the real
they say, may merely
business decisions to get
prices to more satisfactory
the event some system
wage-price controls
adopted by the new
nation.

Nevertheless, that trend will bear close scrutiny in the months ahead, as will such other important indicators as industrial production, personal income, consumer prices, housing activity and business spending for new plant and equipment. One hopeful sign was the strength of chain-store sales.

For the economy as a whole, leading businessmen and their own economic advisers remain quite confident. A sounding taken last week immediately after the election among several leading corporate executives disclosed no great concern about economic prospects. And neither was there any feeling that the outcome of the election had greatly altered the general outlook for the U.S. economy.

Unless something startling happens in the next few months to unsettle the current picture in the domestic or international fields, the U.S. economy seems to be embarked on a course that assures a moderate improvement next year—5 to 6 per cent real growth and perhaps slightly higher inflation.

Whatever the Carter administration does in the early part of next year could not change that prospect very much, though the promised stimulus and innovations could have greater impact later on.

U.S. Firm Sued In Plutonium Worker's Case

WASHINGTON, Nov. 7 (NYT).—The parents and children of Karen Silkwood, an Oklahoma plutonium worker who died in a car crash two years ago, have filed suit in federal court, charging officials of the Keer-McGee Corp. With conspiring to prevent her from organizing a union and reporting nuclear safety hazards to the government.

The civil action, filed in the U.S. District Court in Oklahoma City and made available here, also alleged that corporation officials, three agents of the FBI and a former newspaper reporter who cooperated with the FBI had conspired to suppress information about harassment and intimidation of Miss Silkwood.

The suit further charged Kerr-McGee with willful negligence for failing to exercise proper control over the plutonium located at its facility near Crescent, Okla., during an incident on Nov. 7, 1974, when Miss Silkwood and her apartment were contaminated with the poisonous nuclear material.

The suit asks for compensation and punitive damages totaling $160,000.

Miss Silkwood died a week after the contamination incident when her car crashed as she was on her way to meet the union official and a reporter for The New York Times with information she said would show that Kerr-McGee was manufacturing faulty plutonium fuel rods for an experimental reactor.

Chicago Options Table

Option & price	Vol. Nov.	Last	Vol. Feb.	Last	Vol. May	Last	Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option & price	Vol. Jan.	Last	Vol. Apr.	Last	Vol. Jul.	Last	Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Total volume [illegible] Open interest [illegible]
a-Not traded. b-No option offered.
Sales in 100s. ast is premium (purchase price).

American Exchange Options

Option & price	Vol. Nov.	Last	Vol. Feb.	Last	Vol. May	Last	N.Y. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option & price	Vol. Jan.	Last	Vol. Apr.	Last	Vol. Jul.	Last	Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Total volume [illegible] Open interest [illegible]
a-Not traded. b-No option offered.
Sales in 100s. ast is premium (purchase price).

International Bonds

(A weekly list of non-dollar denominated issues)

DM Bonds

(Average Prices)

Australia 7-87	100 3/4
Australia 9-82	107 1/2 —
Austria 8 1/2-87	105 1/2
B.F Comm Ext. 8 1/4-83	103 1/2
City of Bergen 8 3/4-85	106 1/4
British Gas 6 3/4-84	96 1/4
C F P 8 1/2-85	103 1/4
Case Nat. Autor 9 1/2-82	106.60
Case Nat Telec 8 3/4-82	104 1/2
Copenhagen 7 3/4-86	100.90
Courtaulds 7 3/4-86	99.65
Courtaulds 6 1/2-87	88 1/2
Denmark 8 1/4-82	103 1/2
Daimler-Benz Fin 8-85	104 1/2
E I B 7 3/4-88	101 3/4
E I B 8-80	106.90
[illegible]	[illegible]

	Bid	Asked
Cop City 9 1/4-85	99	100
C.C.A 9 3/4-85	98 3/4	99 3/4
Cop Tel 9 1/2-85	100 1/2	101 1/2
Enso 9 1/4-84	99	100
G I.S 9 3/4-83	101	102
Helsinki 10-88	102 1/4	103 1/4
Ireland 8 1/2-88	92 1/2	93 1/2
Iceland 9 1/4-83	99 1/4	100 1/4
Imatran 9 3/4-85	101	102
Ind M Bk P 9 1/2-83	100 1/4	101 1/4
Ireland 9 1/4-82	99 1/4	100 1/4
Ireland 9 3/4-84	101	102
Manitoba 9 1/4-85	99 3/4	100 3/4
Oslo 8 7/8-92	97 1/4	98 1/4
Oslo 9 1/4-85	99 3/4	100 3/4
Pechiney 8 3/4-89	93 1/2	94 1/2
S.D R 9 1/2-87	101	102
S D.R 9 1/4-85	99 3/4	100 3/4
St Oil Ind 8-88	93 1/4	94 1/4
[illegible]	[illegible]	[illegible]

European Currency Units*

* For trading in DM

French Francs

Guilders

Luxembourg Francs

Canadian Dollars

Kredietlux Indices

[illegible]	[illegible]	[illegible]

(Base=100, 31.12.1970.)

Over-Counter

(Continued from Page 28)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Bank Stock Quotations

(Closing prices of the week's trading.)

	Bid	Asked
[illegible]	[illegible]	[illegible]

Sports

Young Scores Decision Over Lyle in 15 Rounds

SAN FRANCISCO, Nov. 7 (UPI).—Jimmy Young yesterday moved a step closer to a possible rematch with "retired" Muhammad Ali or a top ranking in a possible elimination series with a masterful 12-round decision over Ron Lyle.

Young, ranked No. 3 in the world and loser of a controversial decision to Ali last spring, put together a series of combinations from both inside and out to befuddle Lyle, rated No. 5.

Young, 210 1/2 pounds, failed to register a knockdown against Lyle, an 11th-round knockout victim to Ali, but he landed three solid rights that rocked Lyle in the eighth.

All three officials scored the fight heavily in favor of the 28-year-old Young, who ran up most of his points with well-placed combinations off left-jab leads throughout the bout.

Lyle, 215 pounds, just about eliminated himself from contention with the defeat, particularly since he is 34.

The victory, his 20th in 27 starts, put Young into a contending spot for either a return bout with the champion or serious consideration for a berth in a fight-off should Ali stick to his recent decision to retire.

In Young's previous 19 victories, he had recorded only 7 knockouts while Lyle, in 31 victories in 36 previous fights, had 22 knockouts.

Conteh-Quarry Bout

LAS VEGAS, Nov. 7 (UPI).—John Conteh of Britain, the World Boxing Council light-heavyweight champion, will defend his crown against American Mike Quarry in an internationally televised 15-rounder Dec. 11.

Quarry, the younger brother of retired heavyweight contender Jerry Quarry, earned a crack at Conteh by scoring a 10-round unanimous decision over Tom Bethea here last week.

More Sports News On Page 31

NHL Results

Friday's Games

Buffalo 3, Washington 3 (Luce, Perreault, Lorentz; Lalonde, Meehan).
Cleveland 6, Philadelphia 4 (Murdoch 2, Fidler 2, Sabourin, Maruk; MacLeish 2, Clarke, Lonsberry).
Pittsburgh 4, Colorado 1 (Kehoe, Chapman, Corrigan, Malone; Andruff).
Toronto 4, Atlanta 2 (McDonald 2, Garland, Boutette; Comeau, Vail).
Vancouver 4, Los Angeles 1 (Lever, Blight, Ververgaert, Gassoff; Dionne).

Saturday's Games

Los Angeles 3, New York Rangers 3 (Dionne 2, Komadoski; Murdoch, Greschner, Vickers).
St. Louis 3, Toronto 2 (Marotte, Berenson 2; Ferguson, Boutette).
New York Islanders 5, Minnesota 2 (Nystrom 2, D. Potvin 2, Henning; Young, Sharpley).
Montreal 11, Chicago 3 (Shutt 2, Robinson, Lafleur 2, Lambert 2, Shutt, Tremblay, Mahovlich, Houle; Bowman, Bordeleau, Daigle)

WHA Results

Friday's Games

Houston 9, Phoenix 1 (Lund 3, Ruskowski 4, Mark Howe, Lukowich; Mononen).
New England 4, Edmonton 3 (Backstrom, Paiement, Lyle, Webster, Legerin, Sheehy 2).
Winnipeg 9, Minnesota 2 (Hedberg 2, Sjoberg, Labraaten, Lindstrom, Green, Ketola, Miller, Guindon; S. Carlson, Keon).

Saturday's Games

San Diego 4, Houston 1 (Veneruzzo, Noris, Rivers, Ferguson; Ruskowski).
Quebec 6, Birmingham 5 (Tardif, S. Bernier, P. Bordeleau, Cloutier 2, Constantin; Phaneuf, Henderson 2, Jacques, Kirk).
Cincinnati 7, Winnipeg 3 (Leduc, Abgrall, Hughes, Locas 3, Dudley; Nilsson, Sullivan 2).

Price, Adams Pace Braves No Victory Over Rockets

BUFFALO, Nov. 7 (UPI).—Newly acquired guard Jim Price and veteran forward Don Adams came off the bench last night to combine for 30 points and lead the Buffalo Braves to a 117-102 National Basketball Association victory over the Houston Rockets.

Price, playing his first home game since being acquired from Milwaukee, scored 17 points and turned in a sparkling floor game as the Braves led by as many as 22 points in the third quarter.

Adams added 13 points, while Buffalo's recovering star, Bob McAdoo, collected a game high 24 points. Rookie Adrian Dantley netted 18, John Shumate 17 and Ernie Digregorio 10 points for the Braves.

Bullets 109, Celtics 103

At Landover, Md., Elvin Hayes scored 36 points, grabbed 13 rebounds and blocked four shots to lead Washington to its second victory in two nights over Boston, 109-103.

Phil Chenier added 20 points for the Bullets, who evened their record at 4-4 with their third straight victory. Boston, now 4-4, has lost four games in a row.

Cavaliers 101, Nets 93

At Cleveland, Austin Carr came off the bench to toss in his season high of 21 points as the Cavaliers ran their unbeaten streak to eight games with a 101-93 victory over the New York Nets.

Carr, who sat out the first and third periods, put in 14 points in the second quarter and added 7 more in the final period to finish with 7 of 10 from the field.

Knicks 112, Warriors 111

At Oakland, Calif., the New York Knicks withstood a last second charge by Golden State to take a 112-111 victory at the Oakland Coliseum.

Trailing 112-111 with six seconds remaining, the Warriors fouled New York rookie Lonnie Shelton. Shelton missed both free throws and Golden State had one last opportunity to win. But Phil Smith's desperation 20-foot jumper fell short.

Nuggets 105, Bucks 103

At Milwaukee, Bobby Jones sank two free throws with three seconds left as Denver extended its undefeated record to seven games with a 105-103 victory over the Bucks.

Milwaukee, playing without injured center Elmore Smith and Kevin Restani, led at the half, 52-48. It was Milwaukee's third loss in a row.

Spurs 113, Pacers 94

At San Antonio, George Gervin scored a game-high 27 points to propel the Spurs to a 113-94 victory over Indiana.

The Spurs jumped off to a 32-25 first period lead and that was the closest the Pacers got the rest of the evening. San Antonio led the rebounding, 46-41, and outshot Indiana 51 per cent to 43 per cent in boosting its record to 3-6.

Pistons 110, Hawks 105

At Atlanta, Detroit, led by center Bob Lanier's 27 points, fought off a desperation comeback attempt by the Hawks for a 110-105 victory.

Atlanta cut a late third-quarter 15-point Detroit lead to two points at 106-104 with 1:37 remaining in the game.

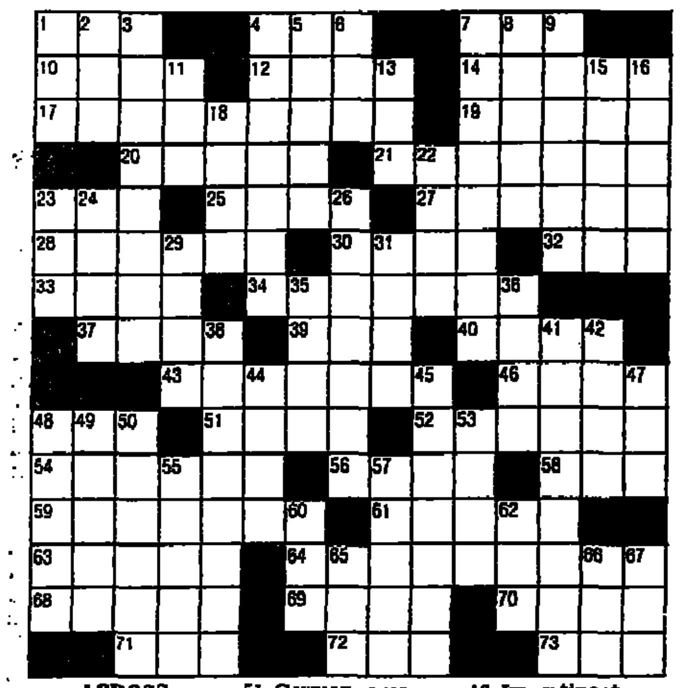
NBA Results

Friday's Games

New York Knicks 126, Los Angeles 121 (Monroe 34, McMillian 25; Abdul-Jabbar 37, Russell 20).
Washington 107, Boston 104 (Hayes 28, Wright 23; White 26, Scott 16).
Buffalo 122, Detroit 108 (McAdoo 30, Adams 16; Lanier 35, Ford 16).
Kansas City 112, Indiana 103 (Taylor 21, Robinzine 17; Lewis 29, Knight 18).
Denver 99, Chicago 85 (Thompson 38, Issel 21; Johnson 30, Gilmore 19).
New Orleans 127, San Antonio 119 (Maravich 34, James 19; Paultz, Kenon 22, Gervin 19).
Seattle 88, Phoenix 84 (Brown 26, Norwood 15; Sobers 18, Erickson 14).
Portland 146, Philadelphia 104 (Walton 27, Lucas 21; McGinnis 28, Collins 20).
New York Nets 95, Houston 91 (Archibald 23, Williamson 19; Tomjanovich 18, Murphy 14).

Saturday's Games

New York Knicks 112, Golden State 111 (Monroe 28, McMillian, Frazier 22; Smith 29, Wilkes 23).
Denver 105, Milwaukee 103 (Thompson 29, Issel, Jones 23; Winters 20, Bridgeman 18).
Washington 109, Boston 103 (Hayes 36, Chenier 20; White 27, Rowe 22).
Cleveland 101, New York Nets 93 (Carr 21, Smith 17; Williamson 28, Archibald 26).
San Antonio 113, Indiana 94 (Gervin 27, Kenon 24; Knight 22, Roundfield 18).
Detroit 110, Atlanta 105 (Lanier 27, Money 14; Drew 24, Barker 17).
Buffalo 117, Houston 102 (McAdoo 24, Dantley 18; Tomjanovich 21, Newlin.



ACROSS

1 Part of a min.
4 April 15 initials
7 Dolce—niente
10 "...two peas in—"
12 Beery
14 U.S. playwright
17 Significant event
19 "—vincit amor"
20 Tivoli Park visitors
21 Mess-kit contents
23 Brit fliers
25 Noun endings
27 Releases
28 White poplars
30 Poi ingredient
32 Bob's TV partner
33 Rejoicing
34 Teach
37 Relative of etc.
39 Zoo creature
40 Word study: Abbr.
43 Causative elements
46 Tooth's partner
48 "—not what your country..."
51 German area
52 Bracelet additives
54 Initiates
56 Gin type
58 Murky
59 Wild lime trees
61 Preakness winner, 1942
63 Caesar's friends
64 Criterion
66 Kind of truck
69 Split
70 Indian
71 Before
72 Seeing red
73 Kind of bed

DOWN

1 Ervin or Houston
2 Prefix for dermis
3 Loss of confidence
4 Extreme
5 Thing to rule
6 —Diego
7 Bit of extra reading
8 Concede
9 French painter
11 Roman goddess
13 Possessive
15 Ringworm
16 Impertinent
18 Dirk
22 Atmosphere
23 Kind of time or doll
24 Start of a palindrome
26 Apathetic states
29 Page
31 Maple genus
35 Information
36 Volcano
38 Condemned-man's route
41 Army menial
42 Puccini heroine
44 Mexican dwelling
45 Reproved
47 Invasion craft: Abbr.
48 Songwriters' org.
49 Leaf orifice
50 Al of Tiger fame
53 Hitler deputy
55 Kitchen utensil
57 Insect stage
60 Mideast land: Abbr.
62 Consumed
65 Goal
66 U.S. agency
67 Essential

WEATHER

	C	F	
ALGARVE	16	61	Cloudy
AMSTERDAM	11	52	Cloudy
ANKARA	18	64	Clear
ATHENS	22	72	Clear
BEIRUT	27	81	Clear
BELGRADE	18	64	Clear
BERLIN	16	61	Clear
BRUSSELS	10	50	Cloudy
BUCHAREST	12	51	Overcast
BUDAPEST	17	63	Clear
CASABLANCA	18	64	Cloudy
COPENHAGEN	11	52	Cloudy
COSTA DEL SOL	17	63	Overcast
DUBLIN	9	48	Cloudy
EDINBURGH	9	48	Cloudy
FLORENCE	12	54	Storm
FRANKFURT	8	46	Rain
GENEVA	6	43	Rain
HELSINKI	2	36	Fog
ISTANBUL	16	61	Cloudy
LAS PALMAS	21	70	Overcast
LISBON	13	55	Cloudy
LONDON	12	54	Variable
LOS ANGELES	11	52	Clear
MADRID	8	46	Variable
MILAN	12	54	Rain
MONTREAL	3	38	Cloudy
MOSCOW	3	37	Rain
MUNICH	5	41	Overcast
NEW YORK	11	52	Cloudy
NICE	11	65	Clear
OSLO	6	43	Rain
PARIS	10	50	Cloudy
PRAGUE	15	59	Cloudy
ROME	18	64	Rain
SOFIA	11	52	Cloudy
STOCKHOLM	6	43	Rain
TEHRAN	20	68	Clear
TEL AVIV	26	79	Clear
TUNIS	26	79	Clear
VIENNA	17	63	Cloudy
WARSAW	14	57	Cloudy
WASHINGTON	11	52	Partly cloudy
ZURICH	5	41	Rain

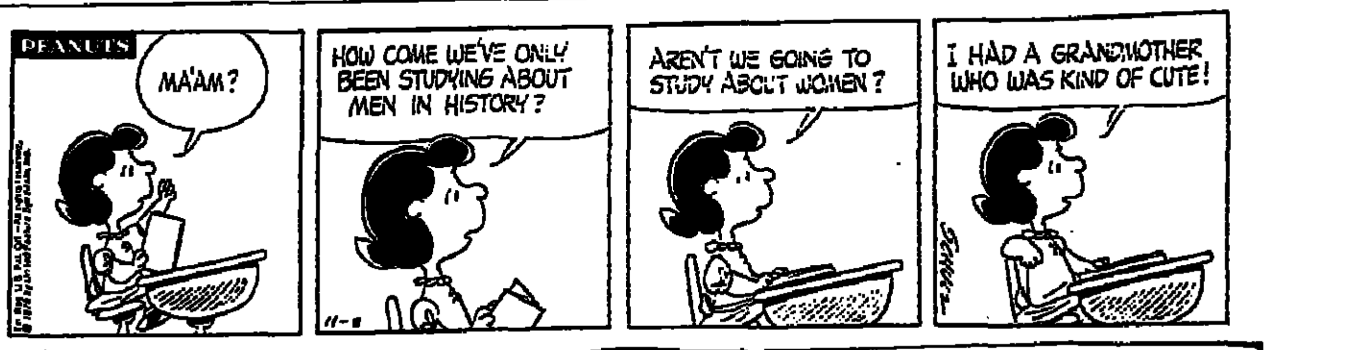
(Yesterday's readings: U.S. Canada at 1700 GMT, others at 1200 GMT.)

NEW YORK (AP) —The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net asset value) or bought (value plus sales charge) Friday.

Mutual Funds

Closing Prices Nov. 5, 1976

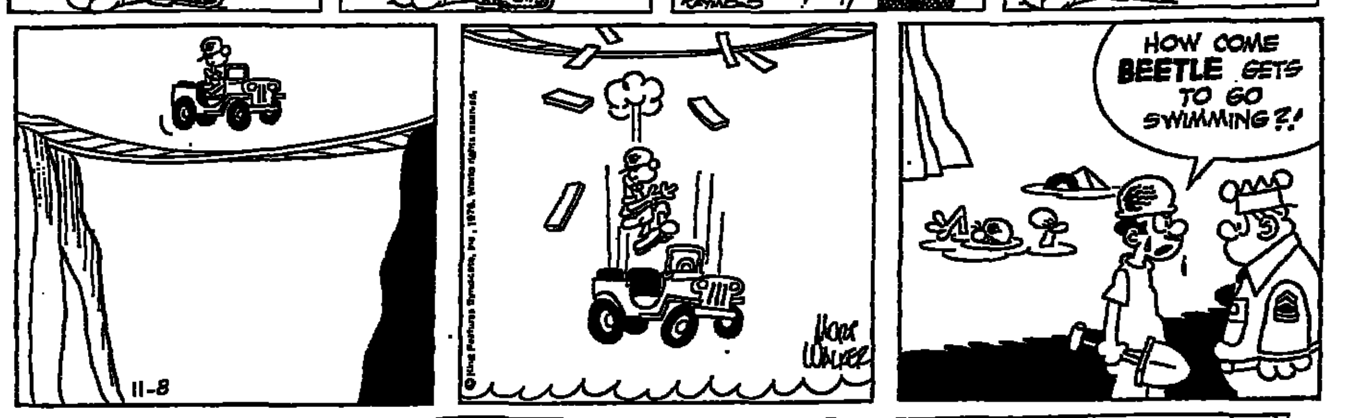
	Sell	Buy
AGE Fnd	4.68	4.78
AGE Fnd	4.68	4.78
AcornFd	12.26	NL
Adm Grt	3.40	[illegible]
Adm Inc	3.40	[illegible]
Adm Ind	7.47	[illegible]
Adv Inv	10.93	NL
Aetna F	7.47	8.16
Aetna St	12.75	13.93
Afuture F	8.74	NL
Allian Fd	[illegible]	[illegible]
Allstate	9.09	9.77
Alpha Fd	10.73	NL
American Funds:		
Am Bal	7.98	8.72
Amcp	4.84	5.33
A Mutl	9.30	10.16
Bond	13.53	[illegible]
Cap Fd	6.25	6.83
Grwth	4.08	4.46
Incom	15.71	17.17
ICA	[illegible]	[illegible]
N Pers	15.19	16.60
Was M	6.65	7.27
Amer General:		
Cap Bd	8.79	9.61
Cap Gr	4.06	4.44
Income	6.28	6.87
Venlr	9.67	10.57
Eq Grt	6.51	7.11
Fd Am	6.40	6.99
Prov	3.76	4.05
Am Grth	5.00	5.39
Am Insln	4.82	5.27
Am Invs	5.03	NL
Amrit Gth	2.56	2.80
Anchor Group:		
Daily	1.00	NL
Grwth	6.62	7.25
Incme	7.42	8.00
Reserv	10.14	10.92
Spectr	4.53	4.91
Fd Inv	7.26	7.96
Wash	10.10	[illegible]
Audax	7.32	8.00
Axe Houghton:		
Fnd A	4.96	5.39
Fnd B	7.48	8.13
Stock	4.01	4.36
BLC Gth	10.26	11.21
Babs Inc	1.80	NL
Babs Inv	9.72	NL
Beach Hil	8.22	NL
Beach In	[illegible]	NL
Berger Group:		
100 Fd	6.72	NL
101 Fd	8.40	NL
Berk Cap	7.86	8.59
Bondstk	4.64	5.07
Bost Fdn	9.26	[illegible]
Brwn Fd	3.26	3.51
Calvin Bullock:		
Bullck	12.43	13.58
Canadn	7.97	8.71
Divid	3.04	3.33
Month	[illegible]	[illegible]
NaNw S	9.80	10.71
NY Vn	10.56	11.54
CG Incm	8.49	9.18
Cap Pres	1.00	NL
Cenly Sh	11.37	[illegible]
Chall Inv	9.58	10.38
Chart Fd	12.59	[illegible]
Chase Gr Bos:		
Fund	6.50	7.10
Frnt C	3.31	[illegible]
Shrhl	2.34	[illegible]
Spcl	5.22	5.70
Chesapd	11.31	NL
Chemicl	7.78	8.50
ChkAgent Fds:		
Libry Fd	4.30	4.73
Mass Fd	5.61	[illegible]
Schust	6.75	7.38
Colonial:		
Cnvrt	8.93	9.76
Fund	9.52	[illegible]
Grwth	4.87	5.32
Incom	8.75	9.56
Colu Gth	14.12	NL
Cwlth AB	.98	1.06
Cwlth C&D	1.45	1.57
Comp Ca	4.10	[illegible]
Comp Bd	8.76	9.42
Comp Fd	7.46	[illegible]
Concord	11.47	NL
Cons Inv	10.25	10.75
Constel G	5.79	NL
Cont Mut	4.61	NL
Ctry Cap	11.54	12.47
Dawgc Fd	6.83	NL
daVegh	31.49	NL
Delaware Group:		
Decat	11.39	12.45
Delaw	10.83	[illegible]
Delch	9.26	[illegible]
Delta	4.39	4.80
Dir Cap	3.85	4.21
Dodge C	13.52	NL
Drex Bur	9.62	NL
Dreyfus Grp:		
[illegible]	[illegible]	[illegible]



B.C.

BLONDIE

BEETLE BAILEY



WIZARD of ID

ANDY CAPP

REX MORGAN M.D.

RIP KIRBY

JUMBLE — that scrambled word game

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

MYRIG

ACCOO

EWLLOB

USUBED

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

A "○○○○○" ○○○○○○○

(Answers tomorrow)

Saturday's Jumbles: GOING RAJAH PARADE TIMELY

Answer: He makes his living off the land—A MARINER

"Registered as a newspaper at the Post Office"
"Printed in Great Britain"

DENNIS THE MENACE

"CAN I USE YOUR BATHROOM, MR. WILSON? IF I GO HOME LIKE THIS, SHE'LL SCREECH ME OUTA A YEAR'S GROWTH!"

BOOKS

THE AUTUMN OF THE PATRIARCH

By Gabriel García Márquez. Translated from Spanish by Gregory Rabassa. Harper & Row. 269 pp. $...

Reviewed by Christopher Lehmann-Haupt

THIS long-awaited incandescent second novel by Colombian writer Gabriel García Márquez is in a sense a sequel to his first. For if "One Hundred Years of Solitude" was a dream of Latin American history, then "The Autumn of the Patriarch" is a nightmare. It begins with the death of a nameless dictator who has lived somewhere between 107 and 232 years and ruled throughout much of his Caribbean country's horrific history: "Over the weekend the vultures got into the presidential palace by pecking through the screens on the balcony windows and the flapping of their wings stirred up the stagnant time inside and at dawn on Monday the city awoke out of its lethargy of centuries with the warm, soft breeze of a great man dead and rotting grandeur. Only then did we dare to go in."

At the end, the narrator, who seems to be the collective voice of the people, delivers its final judgment of the "great man": . . "He had learned of his incapacity for love . . . and he had tried to compensate for that infamous fate with the burning cultivation of the solitary vice of power . . . as he discovered in the course of his uncountable years that a lie is more comfortable than doubt, more useful than love, more lasting than truth . . ."

In between the beginning and end, the narrative flows back and forth in time to create out of the chronological jumble the tyrant's terrible story.

Unscrambled and viewed in its broadest outlines, the story can be recognized as a composite history of all Latin and South American dictators. In the beginning of his career, the patriarch is a hero to his people and beloved by his fellow soldiers. But inevitably, he grows apart, sells his country out to the "gringos," enriches himself, murders his opponents and practices nepotism. At the acme of his power he is completely isolated; the ... longer even remember ... looks like.

But filtered through ... imagination, the story ... credibly exaggerated ... genic. The tyrant's ... his country to ... volves pumping the Car... to Arizona, and ... wind machine to ... wastes that remain ... rich by rigging the ... tery, then extermin... children he involved ... ging, then execute ... be involved in the ... He disposed of his ... henchman by serving ... "with 14 pounds of ... his chest and a sprig of ... in his mouth" at an ... quet for his generals.

At the height of his ... has grown so inclu... appoints himself "... universe," commands the ... break—which it does ... his cattle to be born ... ing his brand—which ... And to compound the ... ness with which all the ... are imparted, Márquez ... ten his 269-page book ... (by my hasty count ...) sentences that get ... longer until the final ... on for over 50 pages.

Sometimes these ... splendid, like the one ... the patriarch presents ... to a young woman he ... to seduce. . . "There it ... he murmured, take ... at it because we won't ... for another century ... crossed herself in ... beautiful than ever ... phosphorous glow of ... and with her head ... the soft drizzle of ... and celestial sediment ... they are difficult, ... quez keeps shifting point ...

Occasionally, they ... For instance, when a ... bearing 30 grand piano... a mountain. And here ... they grow tedious.

But what the sentences ... to is a boiling cauldron ... lament, sarcasm, despera... tion, hope and exasper... wonder Latin America ... attracted to surrealism ... may be no other style ... to contain all the ... contradictory emotions ... tory has aroused in the...

Christopher Lehmann-Haupt is a book reviewer for The New York Times.

Solution to Friday's Puzzle

SEAWOLF MUSSELS
ARSENAL ANITRAS
HOPEAGAINSTHOPE
ADAPT UTAHAN
REDS ONAGER HAH
ADE TITLED GENE
ISSEI SOXER
GRASPEDATSTRAWS
LAVAS NOWAY
AVOW SMILEY FTH
DEN BLAZED FLEE
KEENER BEARA
AWINGANDAPRAYER
RELIEVE NEAREST
KNOTTED TUESDAY

CHESS

—By Robert ...

Anatoly Karpov was dissatisfied with his play in the Torneo del Vino in Montilla, Spain, despite his easy victory without a loss. Chagrined over the many errors in his games, he shook his head ruefully and said: "After every move, the games changed hands. I would be winning. effortlessly, then make one mistake, answered by a compensating mistake by my opponent, then make another and so on. I could have been on a seesaw."

I think he was exaggerating a bit, for the only game in which he stood worse at any time was his one with Ricardo Calvo, but it is true that the world champion's usually smooth winning technique was not in evidence.

A Case in Point

His second-round game with Juan Bellon of Spain is a case in point. After drawing the fangs of the dangerous Schliemann Gambit by correct opening play, Karpov missed winning a piece, which would have put the game away quickly. Then he managed to mess his two-pawns-ahead end game, losing his material advantage to find himself in a close end game. Finally rallying to exploit his positional superiority, he staggered on to the victory.

Once White removes the cramping black QN with 12 NxN, he is well on his way toward consolidating his king position against attack. Had Bellon proceeded 12 . . . BxN; 13 N-B3, N-N5, he would have been thrown back by 14 P-N3, B-N3; 15 N-R4.

Karpov's combination of 14 N-N3 and 17 P-KB4 rendered his kingside perfectly safe, but Bellon, a pawn down without a future, still had to go on trying. What both players overlooked, however, was that 18 . . . Q-R5 could have been totally refuted by 19 N-K4, winning a piece.

Bellon had the chance to recover his minus pawn by

BELLON/BLACK

KARPOV/WHITE

Position after 18 . . . Q...

21. . . BxBP, but after ... BxB, RxB; 23 N-Q6, the ... pieces would have been ... tied up and Karpov w... have threatened to slam ... rooks into the seventh ... eighth ranks.

Karpov, floundering ... in uncharacteristic ... delayed the development ... his QB for too long, ... himself in an uncomfort... pin after 33 . . . B-R3 ... he should have been ... win by the counter 34 ... BxRch; 35 RxB, PxN; 36 ... yielding three pawns for ... exchange.

Instead, he allowed ... to make up his material ... cit by 37 . . . RxP ... 38 . . . RxP, though ... nately the black ... proved awkwardly placed ... the resulting end game ... 43 P-R4, Bellon, faced ... the advance of the KRP, ... rificed with 43 . . . B-Q... RxP to set up a ... with 44 . . . B-B3.

Bellon could not ... a pawn by 45 . . . ... BxB, RxBch because 47 ... snatches a piece. Of ... the exchange 45 . . . B... 46 PxB left the black ... in a constricted ... where it could not help ... Karpov's passed pawn.

On 52 . . . RxQP; 53 ... KN7, N-K5ch; 54 K-N... Q7ch; 55 K-N1, R-Q8ch ... B1, N-Q7; 57 P-R7, ... queens. Bellon resigned ... 57 BxP, since 57 . . . ... B3ch; 58 K-N5, NxB is ... sible because of 59 P-R8...

RUY LOPEZ

White Karpov	Black Bellon	White Karpov	Black Bellon	White Karpov	Black Bellon
1 P-K4	P-K4	20 N-K4	QxQ	39 B-Q4ch	K-B...
2 N-KB3	N-QB3	21 RxQ	B-B2	40 B-K2	N-K...
3 B-N5	P-B4	22 N-N5	N-B4	41 R-QR1	K-Q...
4 N-B3	N-Q5	23 N-B3	N-Q3	42 R-R7	K-Q...
5 B-R4	N-KB3	24 P-KN4	P-KN3	43 P-R4	B-Q...
6 PxP	B-B4	25 N-K5	K-N2	44 RxP	B-B...
7 P-Q3	P-B3	26 B-B2	N-B2	45 K-K3	...
8 O-O	P-Q4	27 K-N2	N-Q1	46 PxB	...
9 NxKP	O-O	28 R-B1	P-B4	47 P-R5	...
10 N-K2	Q-R4	29 PxP	N-K3	48 P-R6	...
11 B-N3	Q-B2	30 N-Q3	P-N3	49 BxP	...
12 NxN	QxN	31 PxP	PxP	50 K-B4	...
13 N-K2	QxBP	32 P-B5	N-B4	51 K-B3	...
14 N-N3	Q-N3	33 B-K3	B-R3	52 K-N3	...
15 P-Q4	B-Q3	34 QR-Q1	PxP	53 K-N4	...
16 P-QB3	N-N5	35 RxP	RxR	54 RxR	...
17 P-KB4	Q-R3	36 PxR	BxN	55 B-B6	...
18 P-KR3	Q-R5	37 BxB	RxP	56 K-N4	...
19 Q-K1	N-R3	38 K-B3	RxP	57 BxP	...

Defeat Jets, 27-7

)olphins Win 3d Straight Game

YORK, Nov. 7 (AP).—
riese threw a pair of
wn passes today and the
defense turned in its sec-
ight solid showing as the
s beat the New York Jets,

threw scoring strikes of
s to Jim Mandich in the
riod and 16 to Nat Moore
second. Garo Yepremian
field goals of 44 yards
second period and 34
third as Miami won its
raight to raise its record
The Dolphins wrapped up
try on Gary Davis's 28-
TD sprint with 1:52 to

Jets, falling to 3-7, were
scoreless until 8:24 remain-
the game when Clark
plunged over from the
line.

Dolphins defense showed
re capacity it did a week
in its beat New England,
debilitating the return of
e coach Bill Arnsparger,
weeks ago as head coach
New York Giants.

rdinals 17, Eagles 14

iladelphia, Jim Bakken,
d by poor snaps on three
field-goal attempts, boot-
-yard field goal midway
the fourth period to give
s a 17-14 victory over the
Eagles.

inning points were set up
-yard screen pass from
ack Jim Hart to wide
Ike Harris which put the
he Philadelphia 11. Bak-
ked a field goal three
ter with 8:22 remaining.

Eagles drove to the St.
with 27 seconds to play
e Hampton fumbled and
dinals' Steve Okoniewski
d at the 16 with 19 sec-
aining to insure St. Louis
th victory in nine games.

ardinals shut out in the
f despite two drives that
n inside the Philadelphia
58 and 77 yards on their
possessions in the second
Steve Jones and Wayne
coring on short runs to
visitors a 14-7 lead.

agles came back after Bill
overed a fumble by the
s' Pat Tilley at the St.
Quarterback Mike Bo-
ambled 21 yards to put
es in scoring position and
umpton punched it into
zone from six yards out
e game at 14.

ardinals were plagued by
s on three field-goal at-
n the first half. On one,
Roger Wehrli was hit and
hia took over. Two plays
iladelphia had a third
es on the Cardinal 48
ryla faked into the line
split end Charlie Smith
pattern for a touchdown.
ardinals drove to the
hia 9 twice in the sec-
ter but fumbled a snap
hree-point attempt and,
econd field-goal try, an-
l snap forced Bakken to
kick wide to the left.
als snapped out of its
doldrums in the second
d by workhorse fullback
who gained 115 yards
ries.

0-yard run on St. Louis's
ond-half drive set up
wo-yard run. Otis ran
rds to help set up the
' next touchdown, a sev-
un by Morris.

gles took the ball over
L Louis 38 with 55 sec-
and launched a last-
ve. The drive was kept
a personal foul penalty
middle linebacker Tim
that put the ball on the
Hampton fumbled away
es' last chance to win

after taking a screen pass from Boryla.

Patriots 20, Bills 10

At Foxboro, Mass., rookie Mike Haynes dashed 89 yards with the first punt return for a touchdown in the club's 17-year history and John Smith added two field goals to propel New England to a 20-10 victory over Buffalo.

Buffalo, now 2-7 with five straight losses, played most of the game without O.J. Simpson, who was ejected in the first quarter for fighting.

Smith's field goals came from 48 and 33 yards and Sam Cunningham, who had his best day in four years as a pro with 149 yards in 25 carries, scored the other New England touchdown on an eight-yard run.

The Bills' points came on George Jakowenko's 31-yard field goal with one second left in the first half and a 8-yard touchdown run by quarterback Gary Marangi late in the game.

Haynes, the Patriots' first-round draft pick from Arizona State, fielded Marv Bateman's 46-yard punt late in the second period at the New England 11 on the third bounce. He broke to his right, scooted up the sideline and ran into the clear after fellow rookie Tim Fox blocked Bateman's last-gasp tackle attempt.

Simpson swept to the right 9:06 into the game and was thrown for no gain by Patriots' defensive lineman Mel Lunsford. Simpson, who set an NFL single-game record of 250 yards rushing against New England in 1973, came up swinging.

The usually calm Simpson hit Lunsford with a right hand. Lunsford retaliated, causing a minor one-on-one scuffle on the field. Simpson was ejected but Lunsford was allowed to resume playing.

Haynes—a 6-foot-2, 193-pound cornerback—nearly returned a punt for a touchdown in a preseason game against Cleveland. But he spiked the ball at the Browns three after running 71 yards. Teammate Darryl Stingley recovered the "fumble" and ran in for the touchdown.

New England, 6-3, got its first 2 points as a result of an interception by Fox. The rookie safety from Ohio State snared a pass at the New England 42 and returned it 29 yards to the Buffalo 29. Smith followed with a field goal at 4:18 of the first quarter.

The Patriots scored again midway through the second period on Smith's 12th field goal in 18 tries this season.

Haynes's punt return lifted the Patriots' lead to 13-0, but an interception set up Jakowenko's field goal.

At San Diego, the underdog Chargers will try to hobble galloping Baltimore, winner of seven of the eight games it has played thus far this season.

The Chargers, a more modest 4-4, go onto the field with several statistical deficits. They have gained a total of 2,779 yards this season to Baltimore's 3,151, and they have scored 12 touchdowns to Baltimore's 30.

On defense, the Colts have allowed opponents only 2,245 yards compared with San Diego's 2,721.

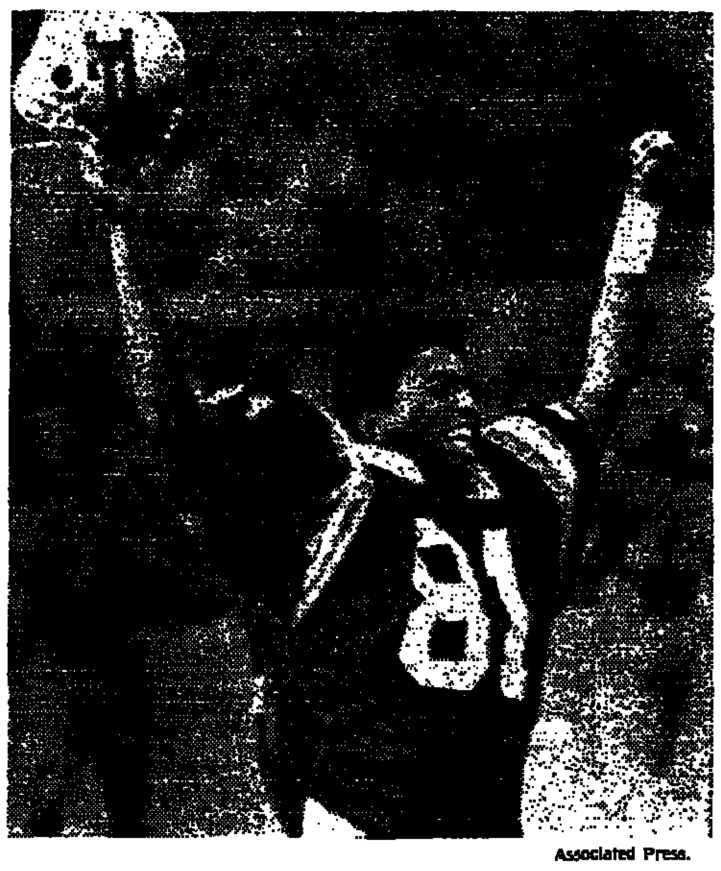
The key test faced by San Diego, 23-0 victim of the Pittsburgh Steelers last weekend, will be the strength of its offensive and defensive lines.

Offensive players up front will try to hold back Baltimore's ferocious "sack pack" defenders, who made six quarterback sacks in Monday night's 38-14 victory over Houston.

Despite the lopsided score against Pittsburgh, San Diego coach Tommy Prothro said his "defense was great for 55 minutes." Midway through the final quarter, the score was 3-0, but the end ofthe game was played in cold rain—a rarity for the Chargers.

San Diego's defenders will face the NFL's best passer in Bert Jones, who has completed 118 of 198 attempts for a 59.6 per cent completion rate and a total of 1,799 yards.

In their last home game, the Chargers gained 502 yards against Houston for a 30-27 victory.



Associated Press.

VICTORY SIGN—Purdue split end is joyous after the Boilermakers upset top-ranked Michigan, 16-14, Saturday.

College Football

No. 1-Michigan Falls In Purdue Surprise

NEW YORK, Nov. 7 (UPI).—Purdue, one of the eight teams that unceremoniously fills out the Big-Ten Conference schedules each fall for perennial powerhouses Michigan and Ohio State, shocked the No. 1-ranked and previously unbeaten Wolverines, 16-14, yesterday on Rock Supan's 23-yard field goal with 4:20 left in the game.

The defeat was the first for Michigan by a Big-Ten team other than Ohio State since 1969 and undoubtedly cost the Wolverines the nation's top ranking, which they have held since the third week of the season.

Tailback Scott Dierking scored touchdowns on runs of 4 and 25 yards to give Purdue a 13-7 halftime lead after Michigan had taken a first-quarter lead on an eight-yard run by quarterback Rick Leach.

Leach put the Wolverines back in front, 14-13, early in the third quarter on a 65-yard scoring pass to wide receiver Jim Smith before Supan booted his fifth field goal of the season. Purdue boosted its record to 4-5.

The winning drive started when Blane Smith recovered Rob Lytle's fumble on Purdue's 29-yard line with just under 12 minutes to go. Purdue quarterback Mark Vitali alternated his running attack with Dierking and John Skibinski carrying the ball and, four plays after Vitali fired a 19-yard pass to Skibinski to the Michigan 11, Supan booted his three-pointer.

Michigan had one more shot at pulling the game out but its drive died on the Purdue 19 and, with 14 seconds left, Bog Wood missed a 37-yard field-goal attempt.

Pitt 37, Army 7

No. 2-ranked and unbeaten Pittsburgh put itself in ideal position to take over the top spot with a 37-7 triumph over Army as Tony Dorsett ran for 212 yards and three touchdowns. The favorite for the Heisman Trophy scored on runs of 4, 32 and 5 yards.

Dorsett's performance gave him his 17th straigth plus-100-yard game and 31 for his career. It also was his eighth plus-200-yard game and pushed his career total yardage rushing to 5,659. Dorsett also claimed his ninth NCAA record, becoming the all-time all-purpcse runner—his mark of 6,192 yards surpassed the previous record of 6,003 yards set by Archie Griffin.

UCLA 46, Oregon 0

At Los Angeles, Jeff Dankworth guided UCLA to three early touchdowns, Frank Corral booted three long field goals and the third-ranked Bruins routed Oregon, 46-0, in a Pacific-8 Conference game. UCLA thus won its eighth game of the season; only a tie against Ohio State at Columbus marring the record. And the Bruins extended their unbeaten string to 13 games, tying a school record.

S. Calif. 48, Stanford 24

At Stanford, Southern California quarterback Vince Evans, operating without all-America tailback Ricky Bell, threw four touchdown passes and the fourth-ranked Trojans crushed Stanford, 48-24, to remain tied with UCLA for the Pacific-8 lead. Flanker Shelton Diggs caught three of Evans's scoring passes, including a 56-yarder on the game's third play. Following the first of cornerback Ricky Odom's three interceptions, Evans hit Diggs on a 21-yard touchdown pass and the Trojans led, 14-0, with 3 1/2 minutes gone. Bell, the nation's leading rusher, missed the game because of an ankle injury.

Georgia 41, Florida 27

At Jacksonville, Fla., quarterback Ray Goff scored three touchdowns and passed for two others as seventh-ranked Georgia overcame a 14-point halftime deficit to bury Florida, 41-27, and gain a share of the Southeastern Conference lead. It was a frustrating blow for the Gators, who could have clinched their first SEC crown. The victory propelled Georgia into the driver's seat in the race for the host spot in the Sugar Bowl game.

Texas Tech 14, Tex. Christian 10

At Forth Worth, Rodney Allison staked unbeaten Texas Tech to two quick touchdowns and the fifth-ranked Red Raiders turned back a bold, gambling upset bid by Southwest Conference doormat Texas Christian, 14-10.

Alabama 28, LSU 17

At Birmingham, fullback Johnny Davis bulled through a proud Louisiana State defense to lead Alabama to a 28-17 Southeastern Conference victory with scouts from eight bowls watching. Davis, stung when put on the second team earlier in the season, scored on bursts of 13 and 56 yards as the 15th-ranked Crimson Tide increased its record to 7-2 and virtually wrapped up an 18th consecutive bowl appearance.

Houston 30, Texas 0

At Austin, Houston quarterback Danny Davis scored once and hit a crucial fourth-down pass to set up a touchdown and Lennard Coplin kicked three field goals as the 19th-ranked Cougars defeated 20th-rated Texas, 30-0, in a Southwest Conference game.

Ohio State 42, Illinois 10

At Columbus, fullback Pete Johnson scored four times to become the fifth player in college history to score 50 career touchdowns, leading eighth-ranked Ohio State to its 18th straight Big Ten victory, a 42-10 rout of Illinois that gave the Buckeyes the conference lead.

Georgia Tech 23, Notre Dame 14

At Atlanta, David Sims powered for a pair of second-half touchdowns, giving Georgia Tech a 23-14 upset over 11th-ranked Notre Dame.

Nebraska 14, Okla. St. 10

At Lincoln, quarterback Vince Ferragamo tossed touchdown passes in the third and fourth periods to lead No. 9-ranked Nebraska to a 14-10 Big Eight Conference victory over No. 13 Oklahoma State.

Maryland 21, Cincinnati 0

At College Park, Md., Mark Manges completed 11 of 19 passes, including two for touchdowns, and added 71 yards rushing to lead unbeaten and sixth-ranked Maryland to a 21-0 victory over Cincinnati.

Okla. 49, Kansas St. 20

At Norman, Okla., sophomore quarterback Thomas Lott ran for 195 yards and three touchdowns as 17th-ranked Oklahoma brushed aside Kansas State, 49-20, to keep the Sooners mathematically in the Big Eight Conference title chase.

Mexican Wins Dewar Cup

Ramirez Brakes Orantes' Tennis Streak at 22

LONDON, Nov. 7 (UPI).—Mexican Raul Ramirez defeated Manuel Orantes, 6-3, 6-4, to win the $100,000 Dewar Cup men's singles tennis title yesterday and end the Spaniard's 22-match winning streak.

The Mexican Davis Cup player not only won the $19,000 first prize but boosted his lead in the Commercial Union Grand Prix standings to the point where he is all but certain to win its $100,000 first prize.

Orantes, the 27-year-old left-hander, went into the final with a string of 22 victories and three straight tournament triumphs. But Ramirez hustled him out of his usual game. The Mexican took control at the net and proved too agile and accurate for Orantes, who was defeated in just two minutes over an hour.

Ramirez, 21, lost his opening service but recovered to win the set and was 5-2 up in the second and serving for the set when he hit only other patch of trouble. He missed a match point at 40-30 and then his service in a rally two points later.

Orantes looked set for a comeback when he won his service to love but the Mexican made sure of victory by taking the ninth game on his service for 6-4.

Briton Virginia Wade gave American Wimbledon champion Chris Evert her first defeat since April, beating her, 6-2, 6-2, in the women's final. It was one of the big upsets of the year in women's tennis, and the American's first defeat since April, when she lost to Yvonne Cawley of Australia in Los Angeles.

She made error after error and obviously experienced great difficulty with her timing on this synthetic court. Wade was aggressive and powerful from the first rally to the last.

Evert threatened to make a last-minute recovery when she broke service in the sixth game to love and then won the seventh for 2-5. But she was unable to contain Wade any longer and, after saving one match point in the following game, was beaten on the next by an easy and competent smash.

After the match, Evert said: "I just didn't have it tonight. I was not feeling anything at all. Virginia played great, probably the best match I have ever played against her.

"But then I made 5 per cent of my passing shots instead of my usual 95 per cent because I was mentally very weak tonight. I reckon I get that way about two or three times a year. But it doesn't necessarily mean I lose each time."

Connors Triumphs

COLOGNE, Nov. 7 (AP).—Top-seeded Jimmy Connors needed little more than an hour today to crush Frew McMillan, 6-2, 6-3, to win the $50,000 Cologne Grand Prix Tennis Tournament.

The victory was worth $10,000 and 40 points for the 24-year-old American, who remains fourth overall in Grand Prix standings with 640. Ramirez is first with 823.

Borg Beats Laver

DETROIT, Nov. 7 (AP).—Bjorn Borg of Sweden defeated Australian Rod Laver, 6-3, 6-1, in a match here last night.

Borg, who won $20,000 for first place, took a 3-0 lead in games and was never behind during the match.

In the consolation match, American Vitas Gerulaitis defeated John Newcombe of Australia, 8-5. Gerulaitis lost to Borg, 2-6, 6-3, 6-3, Friday night and Newcombe lost to Laver, 6-7, 6-2.

Olympic Bid

PARIS, Nov. 7 (Reuters).—The International Lawn Tennis Federation announced here yesterday that it would apply for the inclusion of tennis in the 1984 Olympic Games.

ILTF General Secretary David Gray said that the federation's management committee was negotiating with the International Olympic Committee.

The ILTF's formal application will be examined at an IOC meeting after the 1980 Olympic Games in Moscow, he said. Asked if the ILTF would expect professional players to take part in the Olympics, Gray replied: "One can hope that in 1984 the Olympics will have come nearer to our point cf view."

Russians Disqualified

PARIS, Nov. 7 (UPI).—The Davis Cup Management Committee voted today to disqualify the Soviet Union from the 1977 edition of the tennis competition for refusing to meet Chile in this year's semifinal.

Committee member Derek Hardwick said, "You can be sure it was a big majority—we needed two-thirds and we are only eight on the committee."

At the same time, committee chairman Harcourt Woods announced that a new resolution will be put to the Davis Cup annual general assembly next July in London proposing that one-year disqualification be made automatic in future for any country pulling out of the cup once the draw has been made.

Youth Gives France 4th Straight International

On My Way 2d, Ivanjica Is 3d

By Steve Cady

LAUREL, Md., Nov. 7 (NYT).—In a race marked by irony and controversy, Youth gave France its fourth straight Washington D.C International success yesterday with a 10-length runaway at Laurel Race Course.

The major irony was that the contest lacked a U.S. representative for the first time in its 25 runnings. Effervescing, the lone U.S. entry, was withdrawn from the field only three hours before post time.

That left eight horses from six countries competing in the $150,000 1 1/2-mile race on a soft grass course that helped produce the third slowest International. It also set the stage for a powerful but controversial stretch run by Youth, the 3-year-old colt owned by Nelson Bunker Hunt of Texas. He had to survive a claim of foul before the victory became official.

Youth angled over from the outside toward the rail as he took the lead in the upper stretch, and it appeared that On My Way, another French horse, had to check stride momentarily. On My Way finished second, a nose ahead of Ivanjica, as the French contingent scored a 1,2,3 sweep here for the second straight year.

It was nearly 15 minutes before the stewards decided to disallow the objection, and make Youth the official winner at $5.80 for $2.

During the wait, Youth had been walked in slow circles by his Canadian jockey, Sandy Hawley, while Elisabeth Taylor stood in the winner's circle to make the trophy presentation. When the green-black silks of Hunt finally entered the enclosure, it meant a third International triumph for the 50-year-old Texan and the second in consecutive years for Hunt, Hawley and Maurice Zilber, the trainer. They won last year's International with Nobiliary, a filly.

With no U.S. representatives on hand, the foreign forces increased their lead in the series by default to 14-11. Every other International had at least two U.S. horses.

Yet there was another irony to this race, when Bloodlines were considered. All three in-the-money finishers, although based in France, were bred in the United States. Youth, a bay son of Ack Ack, is from Maryland; On My Way is from Virginia, and Ivanjica is from Kentucky.

Noble Dancer, representing Norway, finished fourth, followed by Rose Bowl (England), Fujino Pahshia (Japan), Windwurf (Germany) and Janus (Brazil). Youth, a co-favorite with Ivanjica at 9-5, ran the distance in 2 minutes, 46 1-5.

"He swerved in just a shade," Hawley said, "but I straightened him right out. He tends to wait for horses when he makes the lead."

United Press International.

FRENCH TRIPLE—Youth coasts to victory with On My Way second and Ivanjica third.

More Sports News On Page 29

)aldi Finds
la and Hunt
rving Title

Nov. 7 (AP).—Former
uto-racing champion
Fittipaldi of Brazil has
oted as saying that
Lauda and James Hunt
to be champion" in the
nded Formula-One rac-

conditions in the
and Prix which decided
Fittipaldi told Milan's
dere Della Sera, "were
h, but the same for
You must not forget
had suffered a serious
in August."

tles, the Brazilian driv-
Niki will still be the
best in future competi-

t was also quoted as
was contacted in Au-
Ferrari to join the
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it said that world cham-
es Hunt of Britain "is
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ttacks with a good car.
ntastic in the second
e last championship. It
at Hunt has no special

r Birdie Wins
Golf Tourney

JAPAN, Nov. 7 (UPI).—
er holed a birdie from
the first sudden-death
to win the $82,500
Sasaic Golf title at the
bourne.
defeated fellow Aus-
art Ginn, whose bid for
on 15 feet slipped just
e cup.

The Great Players Revolution in Baseball Spells Uncertainty for Owners

By Joseph Durso

NEW YORK, Nov. 7 (NYT).—After two days of legalized raids that rearranged the baseball world, the men who run the major leagues went home yesterday and counted the cost in players lost, players gained, cash surrendered and futures mortgaged.

During two draft meetings in 48 hours, they sold or claimed 22 players worth perhaps $40 million in talent, then left New York wondering what lay ahead in next year's phase of the Great Players' Revolt.

"It's here, it's a reality, you have to live with it," said Bing Devine, the free-trading general manager of the St. Louis Cardinals. "What good does it do to sit around crying, 'Look how this wrecks things.' We've had the industrial revolution and the agriculture revolution. Now the baseball revolution, and it's been coming since World War II."

"It's a revolution, but what can you do about it?" agreed Gabe Paul, the even freer-trading president of the New York Yankees. "You can't look back and say it shouldn't have happened. We're paying now for previous inaction. The only question left is how you're going to live with it."

"What next?" asked Dick O'Connell, executive vice-president of the Boston Red Sox. "Ticket prices will go up, for one thing. Every club has just so much money to spend, and they'll spend it to sign the best players available to stay competitive. The Red Sox must watch the Yankees, and the Baltimore Orioles must watch them both."

Power Balance

The immediate headache for all 26 teams in the two major leagues was the balance of power on the field and the survival of the franchise as a business. Beyond that, another headache was gathering: What happens next October when another bunch of players become free agents?

The Oakland A's, the dominant team in the American League this decade, led both leagues in suffering last Thursday when they lost eight unsigned players in the sport's first mass auction of free agents. The Kansas City Royals, who replaced them as the leader in the West this year, lost none. In the East, the Orioles lost four, the Yankees one and the Red Sox none.

In the National League, the world champion Cincinnati Reds stood on "principle" and boycotted the draft. Its chief rival, the rich Los Angeles Dodgers, claimed "talking rights" to eight liberated players, including the Red's ace pitcher, Don Gullett. In the East, the defending champion Philadelphia Phillies lost Dave Cash, but promptly bid for eight other players, including Gullett, Reggie Jackson and five of the defectors from Oakland.

The teams have until Feb. 15 to outbid one another for the first crop of free agents. But, meanwhile, they must make offers to their own players or eventually lose them, too. And everybody now enters the winter trading season without knowing precisely who belongs to whom.

'What Revolution?'

In the center of the whirlwind stood Marvin Miller, the economist who shaped the strategy of the Players Association through the labor negotiations and court battles that won the revolution. He was asked if he felt like Robespierre, and he smiled and replied: "What revolution?"

"I don't think it shook anything," he said, judging the impact of it all. "It's like the arbitration of players' salaries. Everybody said it would lead to mass arbitration. But what it did was to focus the issues better so the owners and players could discuss salaries better. The same thing will happen here. You may not get masses of free agents. You'll probably get players and owners working out more realistic individual agreements."

"In the future," said Richard Moss, counsel to the Players' Union, "this scene will be repeated on a smaller scale, not a larger one. The players and owners will seek their own level of agreements."

Boston Signs Campbell

BOSTON, Nov. 7 (UPI).—The Boston Red Sox became the first team to reap a reward of the major league re-entry draft yesterday when it signed Minnesota relief pitcher Bill Campbell to a four-year contract reported at $1 million.

Campbell, 28, was Boston's first-round selection in Thursday's free-agent draft. He was drafted by 11 other major league teams.

Campbell reportedly asked for $1 million spread over the four years. He played for Minnesota three years, earning $30,000 his last year with the team.

Campbell had a 17-5 record with Minnesota last year, plus 20 saves. He was considered by many to be the best relief hurler in the American League.

Pittsburgh Gets Tanner

PITTSBURGH, Nov. 7 (AP).—Chuck Tanner, manager of the Oakland A's, has been acquired by the Pittsburgh Pirates in exchange for catcher Manny Sanguillen and cash, the Pirates announced.

In a separate deal, the Pirates sold infielder Tommy Helms to Oakland.

Tanner spent one year with Oakland after five years with the Chicago White Sox, where he was named manager of the year in 1972.

Foster Fight in S. Africa

JOHANNESBURG, Nov. 7 (Reuters). — Light-heavyweight Victor Galindez of Argentina will defend his World Boxing Association title against former champion Bob Foster of the United States in Johannesburg March 5, promoters announced.

Horse Challenge Trophy

NEW YORK, Nov. 7 (UPI).—Kevin Bacon of Australia spirited Chichester over 13 fences without a fault in a brisk 46 seconds to win the Brig. Gen. John Tupper Cole Memorial Challenge Trophy in the National Horse Show.

Brown, Yale Remain Tied For Ivy Lead

PROVIDENCE, R.I., Nov. 7 (AP).—Paul Michalko passed for four touchdowns, two to split end Bob Farnham on plays covering 48 and 29 yards, as Brown defeated Dartmouth, 35-1, yesterday to remain tied with Yale for the Ivy League football lead.

Michalko, who also threw scoring aerials of 40 and 33 yards, completed 19 of 29 passes for 314 yards and a Brown record as the Bruins defeated Dartmouth for the first time since 1955.

At New Haven, Conn., junior halfback John Pagliaro scored three touchdowns, leading Yale to a 39-7 victory over Princeton and setting a Yale record of 15 touchdowns for the season.

College Football

EAST

Brown 35, Dartmouth 21.
Colgate 24, Bucknell 13.
Columbia 35, Cornell (N.Y.) 17.
Connecticut 40, Boston U. 11.
Harvard 20, Penn 8.
John Hopkins 16, Swarthmore 16.
Lafayette 30, Gettysburg 3.
Maine 21, N'Eastern 20.
Mass. 21, Holy Cross 14.
Navy 27, Syracuse 10.
New Hamp. 31, Rhode Island 6.
Penn St. 41, No. Carolina St. 20.
Pittsburgh 37, Army 7.
Rutgers 34, Louisville 0.
Trinity 24, Amherst 17.
Yale 39, Princeton 7.

SOUTH

Alabama 28, LSU 17.
Georgia 41, Florida 27.
Ga. Tech 23, Notre Dame 14.
Kentucky 14, Vanderbilt 0.
Maryland 21, Cincinnati 0.
Miss. St. 28, Auburn 19.
Miami 13, Boston Coll. 6.
Tennessee 21, Memphis St. 14.
Tulsa 35, Virginia Tech 31.
Tuskegee 33, Miles Coll. 19.
Villanova 23, Marshall 10.
Virginia 21, Lehigh 20.
VMI 30, The Citadel 14.
Wake Forest 38, Duke 17.
W. Virginia 32, Tulane 28.
Wm. & Mary 23, Appy St. 22.

MIDWEST

Iowa St. 31, Kansas 17.
Miami (Ohio) 31, Wsn. Mich. 0.
Michigan St. 23, Indiana 0.
Minnesota 38, Northwestern 10.
Missouri 16, Colorado 7.
Nebraska 14, Oklahoma St. 10.
Ohio St. 42, Illinois 10.
Ohio U. 31, Bowling Green 26.
Purdue 16, Michigan 14.
Temple 31, Drake 7.
Wisconsin 38, Iowa 21.

SOUTHWEST

Arkansas 7, Baylor 7.
Houston 30, Texas 0.
Oklahoma 49, Kansas St. 20.
Rice 41, SMU 34.
Texas Tech 14, TCU 10.

WEST

Air Force 31, Arizona St. 30.
BYU 40, Tex.-El Paso 27.
California 7, Washington 0.
Colorado St. 31, Idaho 14.
Montana 21, Idaho St. 17.
So. Calif. 48, Stanford 24.
UCLA 46, Oregon 0.
Utah 34, New Mexico 31.
Wash. St. 29, Oregon St. 24.
Wyoming 28, Arizona 24.

Observer

Keys to the Kingdom

By Russell Baker

NEW YORK—Dear J.C.,

Here are the keys to the house. You won't need most of them, as nobody ever seems to lock a door when they go out. With all the cops around the place, why should they?

The little thin brass key opens the desk drawer in which the button is kept. I had Betty mark it with a dollop of red fingernail polish for easy identification, as it is very easy to forget and leave lying around where the cleaning women can find it when they are dusting the office at night. Naturally, you don't want the cleaning women to have their finger on the button, as it makes the Russians very nervous, which could create international tensions.

Baker

In case of international tensions, take the key with the initials "H.K." on it and unlock the wall safe behind the Truman portrait in the Oval Office. There you will find Henry Kissinger's travel schedule, which is padlocked, as Henry is very secretive about everything.

The key numbered 88 opens the padlock so you can find out where Henry is traveling and what his en route phone number is. All you have to do then is go to the top-secret scrambler telephone, dial Henry and tell him you are having international tensions, which he will be glad to hear, as he is absolutely nuts about easing international tensions.

* * *

The dial on the top-secret scrambler telephone is unlocked with the funny looking green key labeled "Top-secret scrambler telephone key." Dick had to have this lock put on the dial several years ago as Spiro had gotten into the habit of coming into the office late at night when there was nobody there but the cleaning women and making top-secret scrambled phone calls to people who didn't have unscramblers on their telephones and couldn't understand what he was saying.

It must have been a lot of fun for Spiro and it didn't do any harm, but it sure ran up the phone bill, which got under Dick's skin, as Spiro was only vice-president. Which reminds me of the big skeleton-type key with the damp moss on it. This is the key that unlocks the closet in the sub-basement where the vice-president is kept.

Do yourself a favor and don't drop it in the trash can thinking, "The vice-president!—Phooey! I'll never need him again." There's nothing better for sending to funerals than vice-presidents. Anybody can send a blanket of gladiolas, but having a vice-president to send shows you've got clout.

It also saves you from having to spend a lot of time standing around graveyards and getting depressed when you could be getting cheered up.

This brings me to the happy looking yellow keys. The one shaped like a musical note unlocks the storeroom in the attic where the "Hail to the Chief" musicians are kept. When you unlock the door, they automatically roll out a red carpet and play "Hail to the Chief" for you. It can make you feel pretty darn good to be hailed as the chief before hitting the hay after a bad day at the desk.

The other keys unlock the chief's garage, where you'll find your custom-built chief's limousine waiting to drive you through red lights to chicken dinners, and—you're going to love this...

Your chief's hangar, where you'll find your custom-built chief's jetliner waiting to jet you to airports of your choice where the "Hail to the Chief" musicians will be waiting beside a red carpet to make you feel pretty darn good when you get off, and—and this is really out of sight...

Your chief's helicopter pad, where you'll find a variety of chief's helicopters waiting to airlift you slowly on the first leg of a vital mission while cameramen record your historic chopper rise.

* * *

Looking at these old keys brings back some pretty good memories, which make it even harder to give it all up. Did you ever see me being photographed entering one of the chief's helicopters for the first leg of a vital mission? If you did you noticed I kept bumping my head on that low helicopter door, which made everybody laugh at me.

As the chief, I could have done a lot of chiefly things—have the helicopter bombed, order the photographers off the lot, report the laughers to the secret police.

A chief can do these things. That's what these keys mean. I didn't do them. I just laughed along with everybody else. It wasn't chiefly. If I'd been more chiefly, maybe I wouldn't be turning over these keys. It's hard to say. Which brings me to the big iron key, which I never used, as it is the key which you turn if you want to seal yourself into the chiefship, where nobody will ever dare laugh at you. It's had a lot of use, but not by me. I guess I didn't have enough time to get used to chiefsmanship.

Take care.

NAACP Elects A New Leader

NEW YORK, Nov. 7 (AP).—Benjamin Hooks, a member of the Federal Communications Commission, was elected yesterday to succeed Roy Wilkins as executive director of the National Association for the Advancement of Colored People.

The vote by the NAACP National Board was unanimous. Mr. Wilkins, 75, plans to retire next July 31.

Mr. Hooks, 51, of Memphis, said he has "no great novel changes" to propose for the 500,000-member civil rights organization. "I just want to see it bigger and better," he said. Mr. Hooks, an attorney and former Baptist minister, said he will resign his FCC post to assume the NAACP job on Jan. 1, 1977.

Curator of the Poor Man's Erotic Art

By Rudy Maxa

COLUMBUS, Ohio (WP).—As the publisher of Hustler magazine, Larry Flynt is the new king of mass-market working-class raunch, an astonishingly successful entrepreneur who happened to be in the right place at the right time with the right licentious idea.

What Hugh (Playboy) Hefner was to the fifties and what Bob (Penthouse) Guccione was to the sixties, Flynt is to the seventies: a shrewd promoter whose men's magazine, begun only 2 1/2 years ago, is a phenomenal success.

Where others have refused to tread, Flynt has charged ahead. Hustler's readers have been treated to articles rating the massage parlors of major U.S. cities (the writer's expenses alone totaled $3,500) and pictorial features of pregnant women, 50-year-old women, bald women and naked amputees. And in the case of a Hustler model, what she's got is what you see.

The magazine's photographers (who shoot most of the layouts at a private home Hustler maintains near Palm Beach, Fla.), avoid the soft-focus, artsy shots that keep other men's magazines out of the category of medical textbooks.

Flynt, 33, is a promoter in the tradition of a P. T. Barnum. He knows the futility of offering famous women $1 million to pose nude, Hustler style. But when he offers Susan Ford, the President's daughter, or Miss America that $1 million, it makes news, of a sort, the way Flynt made news when Hustler printed the blurry nude photos of Jacqueline Onassis that European *paparazzi* peddled.

Capital Idea

Currently, Flynt is reading ads to place in the Washington news media offering $25,000 to the first 10 women who can document that they are on a congressman's payroll for sexual purposes.

Promotion works. Flynt has kept one eye on court decisions regarding obscenity, the other on sales charts that say he will sell about 2.5 million copies of Hustler a month for about $2 each, making his magazine the third in sales behind Playboy and Penthouse in the field.

In doing that, Flynt, a Kentucky farmboy who parlayed a chain of Ohio go-go clubs into a publishing empire, is shattering a trade tradition: over-the-counter sales, not advertising, pay for the magazine—a good thing for Flynt, since advertisers have largely shunned the magazine, leaving plenty of room for him to promote his own mail-order products.

"My magazine is a mirror that reflects the reader's private fantasy," Flynt says. "I really respond to what the reader is, not what I think he should be. I always went along with the philosophy that the newsstand is the poor man's art museum; the rich have erotic art museums. It's still not a professional magazine, lots of it is really amateurish, but I think the readers identify with it and don't feel threatened.

"Hustler readers are used to getting it told to them just like they would hear it at a neighborhood bar." And that is just what Larry Flynt is: a bar owner who found a fortune in magazine publishing and intends to enjoy the ride.

Meatball Sandwich

At his side since the start of the magazine has been his third wife, Althea Leasure, 23. Flynt spotted her eating a meatball sandwich on a street near the Ohio State University campus several years ago.

She was a runaway from an orphanage when Flynt met her, got her a job in one of his Hustler nightclubs and began dating her. She is now Hustler's associate publisher.

Mrs. Flynt, whose editing philosophy was explored in a Hustler interview last summer, acknowledges that Flynt "has been known to strike me, but certainly not dangerously. I've got a very strong personality and I suppose I'm always testing men to find out what I can get away with."

Success has its rewards. Mrs. Flynt, for example, always wanted a heart-shaped bathtub and a house with a rose garden. Upstairs in the $375,000 mansion Hustler bought for its two executives, gold water faucets in the shape of swans fill a large, blue, heart-shaped bathtub at her command. Outside the house, around the corner from an enormous swimming pool, is a carefully tended rose garden.

The mansion was completely redecorated for the Flynts, and the pastel rooms are filled with English and Oriental period furniture. Extras include a sauna, whirlpool, wine cellar and a discreet button beneath the dining table that summons the chef.

Only the basement seems out of place.

Chicken Coop

Chicken wire is stretched along the ceiling of the stairs that lead to the basement. The chicken wire holds back some straw. At the bottom of the stairs the reason for the straw becomes clear: Flynt's basement is a replica of the Kentucky log cabin in which he spent his youth. A washboard and shovel lean against a wall made of weathered barn siding. A chicken coop is in a corner, across the room from a television set. The walls of the bathroom are stucco, with corncobs set in the rough, white plaster.

The basement, Flynt says, reminds him of where he came from.

Flynt had owned eight Hustler bars in Ohio's larger cities. Their attraction was the scantily dressed waitresses, who were encouraged to allow the customers to buy them drinks.

Hustler magazine began as a newsletter for Flynt's nightclubs, which are closed now—"too tacky," Flynt himself admits. While talking with a major magazine distributor in New York, he met the former publisher of Gallery magazine, a Playboy lookalike.

The distributor agreed to handle a new magazine, which the Gallery publisher put together in Chicago with money Flynt had made from his bars. Flynt was displeased with the product, finding that it resembled existing magazines too closely.

The result: "Hustler, the Magazine Nobody Quotes," as the billboard outside Columbus airport boasts. The only subjects Flynt says his lawyers have asked him to avoid are "pedophilia, religion, bestiality and bondage, in that order."

Another Winner

This month, Flynt is fielding a more sophisticated entry in the world of men's magazines. It is called Chic, and recent test marketing in Columbus and Washington convinced Flynt he had another winner.

Produced in Los Angeles with a staff of refugees from such publications as Rolling Stone, Oui and San Francisco's City magazine, Chic is slickly printed. The December issue (press run: 1 million) features Norman Mailer interviewing John Ehrlichman, an assignment that netted Mailer $15,000 and Ehrlichman $10,000.

In the world of men's magazines, Flynt is getting some attention.

In the last year, Flynt and Hugh Hefner have partied together. In fact, the upcoming issue of Esquire features Hefner on the cover reading a copy of Hustler.

Penthouse's Guccione, on the other hand, won't give Flynt the time of day.

U.S. Catholics' Communion Rite Questioned on Hygiene Issue

By Marjorie Hyer

WASHINGTON, Nov. 7 (WP).—An American health specialist, who is also a devout Roman Catholic, says that his church is a potential disease spreader because of the way it administers holy communion in the United States.

Catholic priests in this country are required to place the communion wafer in the worshiper's mouth. John Brennan says that in the process, the priest's fingers may come in contact with germ-laden or virus-laden saliva that is then transferred to the remaining wafers and thus to other worshipers. Such a procedure could cause an epidemic—of swine flu, for example—Mr. Brennan says.

He and his wife, Alice, who first raised the issue with him, want the U.S. Catholic hierarchy to authorize priests to put the communion wafer in the worshiper's hand to place in his or her own mouth. This alternative is common practice in Catholic churches in 50 countries, including Canada and most of Europe.

Committee's Rejection

Backed by the medical opinion of a Harvard University medical professor, the Brennans persuaded the Administration Committee of the Catholic hierarchy to consider the matter at its meeting here yesterday. But the committee, after discussion, decided against putting the matter before the agenda of a full meeting of bishops here this week.

The committee noted that if there is a swine flu epidemic in the United States, each bishop is already empowered to take any action he sees as necessary to impede its spread, including temporary use of the technique of putting communion wafers into worshiper's hands.

Groups in the church have pressured U.S. bishops for years to authorize communion deliveries to the hand, calling them more dignified and more appropriate for adult worshipers than what they derisively refer to as the "feed the baby bird" style of the traditional method.

The U.S. Conference of Bishops has twice considered delivering communion to the hand but both times voted it down. The Rev. Thomas Krosnecki, associate director of the Bishops' Committee on the Liturgy, said the negative vote stemmed from a "fear of irreverence on the part of the laity and fears that the laity would not necessarily welcome such change."

Father Krosnecki said the Brennans' complaint was documented with a statement from Dr. Louis Weinstein, professor of medicine at Harvard and an authority on infectious diseases.

Dr. Weinstein agreed with the Brennans' concern about the dangers of spreading infection through the present communion procedure, pointing out that since "the influenza virus is present in the upper respiratory tract, this procedure is fraught with the danger of passing the virus from a person who has the disease to a number of persons who do not yet have the infection."

Sister Marie Rieckelman, a physician who heads the U.S. Catholic Conference Office of Health Affairs here, also agreed that the present communion practice "certainly would be another means of spreading infection under epidemic conditions."

Arabella Churchill outside her squatters'

PEOPLE: A Churchill Faces Eviction as Squatter

Winston Churchill's granddaughter, Arabella, has taken over an abandoned building in London and opened a restaurant for squatters. But London's municipal council says it's going to evict her. "I don't like being called a squatter, but I suppose that is what I am," said the 27-year-old mother of a three-year-old son, Jake.

She was quoted in newspapers as saying she had Greater London Council permission to take over a decaying 19th-century row house in Bristol Gardens. But Richard Balfe, chairman of the council's housing committee, said she didn't. The daughter of Randolph Churchill moved into the house with a German friend, Ben Essig. She is separated from her husband, James Barton, a sheep farmer in Wales. Former debutante Arabella and other squatters have converted the crumbling ground floor rooms into a cozy restaurant serving mostly vegetarian dishes.

"I think squatting is awful when it means moving into somebody else's house, but this is legal," she said.

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Mikis Theodorakis, 51, the renowned Greek composer, says he is considering a move to Sweden in the face of increasing friction with the local Communist party. He said he was "not afraid of the exterior Communist party [the pro-Moscow faction] but simply felt disgust." He said he had suffered public insults and threats because of the moderate political stand he took after restoration of democracy in Greece two years ago. On legalization of the Communist party in 1974, Theodorakis opted for the moderate branch of the party and called for support of the present government as the only alternative to dictatorship.

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Dr. Herbert Fowler, an expert on the mental health problems of American Indians and Alaskan natives, has been awarded the

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